

**MONTE
DEI PASCHI
DI SIENA**
BANCA DAL 1472

Annual
Report





Annual Report as at 31 December 2023



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

Registered office in Piazza Salimbeni 3, Siena, Italy

Share Capital: € 7,453,450,788.44 fully paid in

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

MPS VAT Group - VAT number 01483500524

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

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



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GOVERNING AND CONTROL BODIES

BOARD OF DIRECTORS

Nicola MAIONE	Chairperson
Gianluca BRANCADORO	Deputy Chairman
Luigi LOVAGLIO	Chief Executive Officer
Alessandra Giuseppina BARZAGHI	Director
Paola DE MARTINI	Director
Stefano DI STEFANO	Director
Paolo FABRIS DE FABRIS	Director
Lucia FOTI BELLIGAMBI	Director
Domenico LOMBADI	Director
Paola LUCANTONI	Director
Laura MARTINIELLO	Director
Annapaola NEGRI CLEMENTI	Director
Renato SALA	Director
Donatella VISCONTI	Director

BOARD OF STATUTORY AUDITORS

Enrico CIAI	Chairperson
Pierpaolo COTONE	Standing Auditor
Lavinia LINGUANTI	Standing Auditor

SENIOR MANAGEMENT

Luigi LOVAGLIO	General Manager

FINANCIAL REPORTING OFFICER

Nicola Massimo Clarelli

INDEPENDENT AUDITORS

PricewaterhouseCoopers S.p.A.



CONSOLIDATED ANNUAL REPORT

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General accounting standards

The Consolidated Report on Operations as at 31 December 2023 provides a snapshot of the activities and results which largely characterised the Group's operations during the year, both as a whole and in the various business sectors.

In particular, economic and financial indicators, based on accounting data, are those used in internal performance management and management reporting systems, and are consistent with the most commonly used metrics within the banking industry, thereby ensuring the comparability of presented figures.

The income statement and balance sheet have been reclassified based on presentation criteria that are more suitable for representing the contents of the items according to consistent operational criteria.

In addition, the Report incorporates non-financial company information providing the details on the activities, capital, risks and relations that are significant to the Group's current and future performance. This information is also more thoroughly analysed in the corporate communications found on the Banca MPS website www.mps.it, such as: the "Non-Financial Statement", "Report on Corporate Governance and the Shareholding Structure", the "Remuneration Report" and the "Pillar 3 Disclosure".



Results in brief

Below are the main figures of the income statement and balance sheet of the Montepaschi Group as at 31 December 2023, calculated on the basis of the reclassified financial statements, the methods of which are illustrated in the section “Income statement and balance sheet reclassification principles” of this Report, and compared with what was recorded in the previous year. The Alternative Performance Measures (APMs) identified by the Directors to facilitate the understanding of the economic and financial performance of the Group’s operations are also presented. The APMs, which are built using the reclassified data reported in the Reclassified Income Statement and Reclassified Balance Sheet chapters, are based on accounting data, corresponding to those used in internal performance management and management reporting systems, and consistent with the most commonly used metrics within the banking industry, thereby ensuring the comparability of reported figures. The APMs are not envisaged by the IAS/IFRS international accounting standards and, although they are calculated on financial statement data, they are not subject to complete or limited audit.

These measures take into account the Guidelines provided by the European Securities and Markets Authority (ESMA) on 5 October 2015, which the Italian stock exchange regulator, Consob, has incorporated in its supervisory practices with Communication no. 0092543 of 3 December 2015. With reference to the context resulting from the military conflict between Russia and Ukraine, note that, in line with ESMA guidelines, no new indicators were introduced, nor were changes made to the indicators normally used. It should be noted that, for each APM, information is provided on its definition and calculation methods, and the amounts used in the calculation may be identified through the information contained in the tables below or in the reclassified financial statements in this Consolidated Report on Operations. These formats were constructed on the basis of the financial statements envisaged by Bank of Italy Circular no. 262/2005 and subsequent updates following the same aggregation and classification criteria adopted in the previous year, with the exception of some changes, illustrated in more detail in the section “Income statement and balance sheet reclassification principles” of this Consolidated Report on Operations.

INCOME STATEMENT AND BALANCE SHEET FIGURES			
MONTEPASCHI GROUP			
INCOME STATEMENT FIGURES (EUR mln)	31 12 2023	31 12 2022**	Chg.
Net interest income	2,292.1	1,535.6	49.3%
Net fee and commission income	1,321.9	1,364.6	-3.1%
Other income from banking business	170.1	192.1	-11.5%
Other operating income and expenses	12.8	27.5	-53.5%
Total Revenues	3,796.8	3,119.8	21.7%
Operating expenses	(1,842.8)	(2,108.1)	-12.6%
Cost of customer credit	(440.3)	(416.9)	5.6%
Other value adjustments	(3.2)	(1.1)	n.m.
Net operating income (loss)	1,510.6	593.6	n.m.
Non-operating items	195.9	(1,198.7)	n.m.
Parent company’s net profit (loss) for the period	2,051.8	(178.4)	n.m.
EARNINGS PER SHARE (EUR)	31 12 2023	31 12 2022*	Chg.
Basic earnings per share	1.629	(0.850)	n.m.
Diluted earnings per share	1.629	(0.850)	n.m.
BALANCE SHEET FIGURES AND INDICATORS (EUR mln)	31 12 2023	31 12 2022	Chg.
Total assets*	122,613.7	120,235.3	2.0%
Loans to customers	76,815.6	76,265.3	0.7%
Direct funding	90,639.0	81,997.6	10.5%
Indirect funding	96,844.9	92,420.7	4.8%
of which: assets under management	56,887.8	57,733.6	-1.5%
of which: assets under custody	39,957.1	34,687.1	15.2%
Group net equity*	9,978.5	7,860.1	27.0%
OPERATING STRUCTURE	31 12 2023	31 12 2022	Chg.
Total headcount - end of period	16,737	17,020	(283)
Number of branches in Italy	1,362	1,362	n.m.

* The balance sheet values as at 31 December 2022 were restated, compared to those published at the reporting date, following the retrospective application of the new IFRS 17 “Insurance contracts” and IFRS 9 “Financial instruments” by the insurance associates. For further details of the items affected, see the paragraph on Adoption of the accounting standards “IFRS 17 Insurance Contracts” and “IFRS 9 Financial Instruments” in the companies AXA MPS Assicurazioni Vita and AXA MPS Assicurazioni Danni, included in “Part A – Other matters” in the Notes to the Consolidated Financial Statements.



*** The income statement figures as at 31 December 2022 have been restated, compared to those published at the reporting date, not only for the aforementioned retrospective application of the accounting standards of insurance affiliates, but also to take into account the discontinued application of the reclassifications on PPA and Rents.*

ALTERNATIVE PERFORMANCE MEASURES			
MONTEPASCHI GROUP			
PROFITABILITY RATIOS (%)	31 12 2023	31 12 2022	Chg.
Cost/Income ratio**	48.5	67.6	-19.1
ROE (on average equity)*	23.0	(2.5)	25.5
Return on Assets (RoA) ratio	1.7	(0.1)	1.8
ROTE (Return on tangible equity) *	23.5	(2.6)	26.1
CREDIT QUALITY RATIOS (%)	31 12 2023	31 12 2022	Chg.
Net NPE ratio	2.3	2.2	0.1
Gross NPL ratio	3.6	3.6	n.m.
Rate of change of non-performing loans to customers	5.7	(19.6)	25.3
Bad loans to customers/ Loans to Customers	0.6	0.6	n.m.
Loans to customers measured at amortised cost - Stage 2/Performing loans to customers measured at amortised cost	12.8	14.9	-2.1
Coverage of non-performing loans to customers	49.1	48.1	1.0
Coverage of bad loans to customers	68.1	65.1	3.0
Provisioning	0.57	0.55	0.02
Texas Ratio*	30.3	35.5	-5.2

** The balance sheet values as at 31 December 2022 were restated, compared to those published at the reporting date, following the retrospective application of the new IFRS 17 "Insurance contracts" and IFRS 9 "Financial instruments" by the insurance associates. For further details of the items affected, see the paragraph on Adoption of the accounting standards "IFRS 17 Insurance Contracts" and "IFRS 9 Financial Instruments" in the companies AXA MPS Assicurazioni Vita and AXA MPS Assicurazioni Danni, included in "Part A – Other matters" in the Notes to the Consolidated Financial Statements.*

*** The income statement values as at 31 December 2022 were restated, compared to those published at the reference date, to take into account the aforementioned retrospective application by insurance subsidiaries of new accounting principal and also following the discontinued application of the reclassifications on PPA and Rents.*

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

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

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

Return On Tangible Equity (ROTE): ratio between the Net profit (loss) for the year and the average between the tangible shareholders' equity¹ at the end of financial year and that at the end of the previous financial year.

Net NPE ratio: ratio between Net Non-performing loans to customers and total loans to customers, net of assets under disposal.

Gross NPL Ratio: gross impact of non-performing loans calculated based on the European Banking Authority (EBA) guidelines² as the ratio between Gross non-performing loans to customers and banks³, net of assets under disposal, and total Gross Loans to customers and banks³, net of assets under disposal.

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

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

Provisioning: ratio between the cost of customer credit and the sum of loans to customers and the value of securities deriving from transfer/securitisation of non-performing loans.

Texas Ratio: ratio between gross non-performing loans to customers and the sum, in the denominator, of the relative loss provisions and tangible shareholders' equity.

¹ Book value of Group shareholders' equity inclusive of profit (loss) for the year, net of goodwill and other intangible assets.

² EBA GL/2018/10.

³ Loans to Banks include current accounts and sight deposits with banks and central banks classified as "Cash" under balance sheet assets.



REGULATORY MEASURES			
MONTEPASCHI GROUP			
CAPITAL RATIOS (%)	31 12 2023	31 12 2022	Chg.
Common Equity Tier 1 (CET1) ratio - phase in	18.1	16.6	1.5
Common Equity Tier 1 (CET1) ratio - fully loaded	18.1	15.6	2.5
Total Capital ratio - phase in	21.6	20.5	1.1
Total Capital ratio - fully loaded	21.6	19.5	2.1
FINANCIAL LEVERAGE INDEX (%)	31 12 2023	31 12 2022	Chg.
Leverage ratio - transitional definition	7.0	5.8	1.2
Leverage ratio - fully phased	6.9	5.4	1.5
LIQUIDITY RATIO (%)	31 12 2023	31 12 2022	Chg.
LCR	163.3	192.3	-29.0
NSFR	130.1	134.1	-4.0
Encumbered asset ratio	28.5	31.9	-3.4
Loan to deposit ratio	84.7	93.0	-8.3
Spot counterbalancing capacity (bn of EUR)	29.8	25.5	4.3

In determining the capital ratios, the “*phase-in*” (or “transitional”) version represents the application of calculation rules according to the regulatory framework in force at the reporting date, while the “*fully loaded*” version incorporates in the calculation the rules as envisaged at full implementation.

Common equity Tier 1 (CET1) ratio: ratio between primary quality capital⁴ and total risk-weighted assets (RWA)⁵.

Total Capital ratio: ratio between Own Funds and total RWA.

Financial leverage ratio: indicator calculated as the ratio between Tier 1 capital⁶ and total assets, introduced by Basel regulations with the objective of containing the increase in leverage in the banking sector and strengthening risk-based requirements through a different measure based on financial statement aggregates.

Liquidity Coverage Ratio (LCR): short-term liquidity indicator corresponding to the ratio between the amount of high-quality liquid assets and the total net cash outflows in the subsequent 30 calendar days.

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

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

Loan to deposit ratio: ratio between net loans to customers and direct funding (deposits from customers and debt securities issued).

Spot counterbalancing capacity: sum of items that are certain and free from any commitment that the Group can use to meet its liquidity requirements, consisting of financial and commercial assets eligible for purposes of refinancing operations with the European Central Bank (“ECB”) and assets deposited in the collateralised interbank market (MIC) and not used, to which the haircut, published on a daily basis by the ECB, is prudentially applied.

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

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

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



Executive summary

A summary of the trend in key items of the main income statement and balance sheet aggregates of the Group as at 31 December 2023 is provided below:

- Net **Interest Income** amounted to EUR 2,292 mln, a significant increase over 2022 (+49.3%). This growth was mainly driven by (i) the increased contribution of the commercial sector, which benefited, inter alia, from higher interest income on loans, generated by the increase in interest rates, only partially offset by the higher interests on collections, (ii) the higher contribution of the portfolio of securities as a result of higher yields, and (iii) the greater contribution from bank transactions at amortised cost. In relations with central banks, a net cost of EUR 70 mln was recognised as at 31 December 2023, compared to the net benefit of EUR 161 mln at the end of 2022. This performance is attributable to the ECB's monetary policy decisions, which introduced several increases in reference rates and some changes, starting from 23 November 2022 to the terms and conditions applied to existing TLTRO III auctions. In fact, a cost of EUR 409 mln (plus a further EUR 132 mln in interest expense relating to MRO and LTRO auctions) was recorded on the latter in 2023, compared to the benefit of EUR 131 mln recorded in the previous year; this effect was only partially offset by the income on liquidity deposited with central banks, equal to EUR 471 mln as at 31 December 2023 compared to EUR 30 mln in 2022. The cost of market funding, compared with the previous year, also increased, following the rise in rates and new issues in 2023.
- **Net fee and commission income**, totalling EUR 1,322 mln, showed a decline compared to the previous year (-3.1%), which was mainly due to income from asset management (-3.7%). In this respect, the higher income from assets under custody, due to the renewed interest on the part of customers for fixed-rate investments (mainly government bonds), partially offset the lower commissions from assets under management. Fees from traditional banking services decreased slightly (-0.9%). Finally, the trend in brokered consumer credit commissions (-47.9%) is attributable to the enhancement of the in-house consumer finance factory, which was launched last year.
- **Other income from banking business**, equal to EUR 170 mln, decreased by EUR 22 mln compared to the previous year, mostly due to profit being lower by almost EUR 40 mln as a result of the sale of securities classified in the banking book.
- **Other operating income and expenses** equal EUR 13 mln, compared to the total of EUR 28 mln recorded as at 31 December 2022.
- As a result of the trends described above, **Total revenues** amounted to EUR 3,797 mln, an increase of 21.7% compared to the previous year.
- **Operating expenses** amounted to EUR 1,843 mln, down from 2022 (-12.6%) on all components. In particular, within the aggregate, **Personnel expenses**, equal to EUR 1,180 mln, were down by 15.3%, mainly as a result of the *full-year* benefits related to the 2022 redundancy/solidarity fund measures; this decrease was only partly offset by the higher charges related to the renewal of the national Collective Labour Agreement for bankers and the variable incentive component of remuneration, which was not planned for 2022.
Other administrative expenses, amounting to EUR 488 mln, improved by 7.5%, also thanks to the implementation of a rigorous expenditure management process. **Net value adjustments to property, plant and equipment and intangible assets** totalled EUR 176 mln, a decrease of 6.3%.
- The **Cost of customer credit** stood at EUR 440 mln, up from the previous year's figure (+5.6%). The **Provisioning Rate**⁷ is 57 bps (55 bps as at 31 December 2022).
- The **Net Operating Income** as at 31 December 2023 stood at EUR 1,511 mln, compared to net operating income of EUR 594 mln in 2022.
- In addition to the changes in these economic aggregates, there were **non-operating components** amounting to EUR +196 mln as at 31 December 2023 (EUR -1,199 mln in 2022). Non-operating components include:

⁷ Calculated as the ratio between the annualised cost of customer credit and the sum of loans to customers and securities deriving from the sale/securitisation of non-performing loans.



- **Net provisions for risks and charges**, of EUR +471 mln (EUR +2 mln as at 31 December 2022) related to the remarkable improvement in the risk profile of civil and criminal litigation regarding the financial information disclosed in the period 2008-2015, following the favourable rulings issued in the last quarter of 2023;
 - **Other gains (losses) on equity investments**, amounting to EUR -3 mln (EUR +4 mln as at 31 December 2022); **Restructuring costs/one-off costs**, amounting to EUR -23 mln (EUR -931 mln as at 31 December 2022, including provisions made for the early retirement incentive/solidarity fund); risks and charges associated to the **SRF (Single Resolution Fund)**, **DGS (Deposit Guarantee Systems)** and similar schemes, amounting to EUR -134 mln (EUR -180 mln as at 31 December 2022) the **DTA Fee**, amounting to EUR -63 mln (in line with 2022); the **Net gains (losses) on property, plant and equipment and intangible assets measured at fair value**, amounting to EUR -53 mln (EUR -31 mln as at 31 December 2022); **Gains (losses) from the disposal of investments**, amounting to EUR +0.4 mln (EUR +0.8 mln as at 31 December 2022).
- As a result of these trends, combined with the positive impact on **taxes** of EUR 345 mln (compared to the positive total of EUR 427 mln in 2022), the Group recorded a **Profit for the year attributable to the Parent Company** of EUR 2,052 mln, compared to a loss of EUR 178 mln in 2022.
 - Group **Total Funding** as at 31 December 2023 amounted to approx. EUR 187.5 bn, an increase of EUR 5.6 bn compared to 30 September 2023, on both Direct Funding (EUR +1.2 bn) and Indirect Funding (EUR +4.3 bn). In particular, as regards Direct Funding, the increase was recorded mainly on Time deposits (EUR +1.2 bn); current accounts (EUR +0.1 bn) and bonds (EUR +0.2 bn) also increased. Repurchase agreements (EUR -0.2 bn) and other forms of direct funding (EUR -0.1 bn) were down slightly. The increase in Indirect Funding was recorded on assets under custody (EUR +3.2 bn) and on assets under management (EUR +1.1 bn) and is mostly due to a positive market effect; positive net inflows were also recorded on assets under custody in the fourth quarter of 2023, linked to renewed interest from customers in government bonds as related returns increased.
Total Funding compared to 31 December 2022 recorded an increase in volumes of EUR 13.1 bn, both in Direct Funding (EUR +8.6 bn) and in Indirect Funding (EUR +4.4 bn). The trend in Direct Funding shows an increase in time deposits (EUR +1.6 bn), in repurchase agreements (EUR +6.0 bn) and in the bond component (EUR +1.4 bn), the latter following placement of the aforementioned senior preferred bonds for EUR 500 mln in the third quarter of 2023, in addition to the EUR 750 mln placement completed in the first quarter of 2023. The increase in indirect funding was impacted by the increase in assets under custody (EUR +5.3 bn), recorded mainly on the government bonds component.
 - **Loans to customers** amounted to EUR 76.8 bn as at 31 December 2023, down compared to 30 September 2023 (EUR -1.2 bn) mainly due to the decrease in mortgages (EUR -1.3 bn). On the other hand, repurchase agreements were up slightly (EUR +0.2 bn), while the other components were substantially stable.
The aggregate was up (EUR +0.6 bn) compared to 31 December 2022. The increase in repurchase agreements (EUR +2.7 bn) and the increase in other loans (EUR +0.6 bn) were in fact only partially offset by the decline recorded since the beginning of the year on mortgages (EUR -2.7 bn) and current accounts (EUR -0.1 bn).
 - As at 31 December 2023, the **Coverage of non-performing loans to customers** stood at 49.1% compared to 50.8% at 30 September 2023 and 48.1% at 31 December 2022. As for the individual administrative states, the trend compared to 31 December 2022 was mainly attributable to bad loans (whose coverage increased from 65.1% as at 31 December 2022 to 68.1% as at 31 December 2023), while the unlikely to pay loans coverage was substantially stable (from 37.5% to 37.6%) and the non-performing past due loans decreased (from 22.7% to 21.7%). The trend of exposure, compared to the figure as at 30 September 2023, is mainly due to the deconsolidation of the impaired loans portfolio of the so-called “Mugello” project, and to modelling updates of LGD parameters also carried out in the fourth quarter of the year, which led to a decline in coverage ratio for impaired loans other than bad loans.

With regard to capital ratios, as at 31 December 2023, the **Common Equity Tier 1 Ratio** stood at **18.1%** (compared to 16.6% at 31 December 2022 and 16% at 30 September 2023) and the **Total Capital Ratio** stood at **21.6%** (compared to 20.5% at 31 December 2022 and 19.5% at 30 September 2023).



Group overview

The Montepaschi Group is the banking hub led by Banca Monte dei Paschi di Siena S.p.A., listed on the Electronic Stock Exchange (Mercato Telematico Azionario) organised and managed by Borsa Italiana S.p.A., with registered office in Piazza Salimbeni 3, Siena, whose activities are focused on traditional retail & commercial banking services carried out mainly in Italy.

The Group is also active in business areas such as leasing, factoring, corporate finance and investment banking, previously managed by its own specialised companies (the former subsidiaries MPS Leasing & Factoring and MPS Capital Services Banca per le Imprese) merged by incorporation in April and May 2023, respectively. The insurance-pension sector is covered by a strategic partnership with AXA while asset management activities are based on the offer of investment products of independent third parties.

The Group combines traditional services offered through the network of branches and specialised centres with an innovative self-service and digital services system enhanced by the skills of the Widiba financial advisor network.

Foreign banking operations⁸ are focused on supporting the internationalisation processes of corporate clients in all major foreign financial markets.

COMPANY	ACTIVITIES
 MONTE DEI PASCHI DI SIENA BANCA DAL 1472	Banca Monte dei Paschi di Siena operates in the different segments of banking and finance, from traditional banking including leasing and factoring products, to special purpose loans, assets under management, bancassurance and investment banking. The Bank performs functions of direction, coordination and control over the Group's companies, as part of the more general guidelines set out by the Board of Directors in compliance with the instructions provided by the Bank of Italy in the interest of the Banking Group's stability.
 MPS FIDUCIARIA	Monte Paschi Fiduciaria offers its services to private parties and companies that wish to leverage the utmost confidentiality in relation to their interests and business, through the instrument of the fiduciary mandate. In addition, Monte Paschi Fiduciaria can also take on the role of Trust Company for the administration of assets as trustee or guardian (or protector).
 BANCA WIDIBA	Widiba (Wise-DIalog-BAnking) is the Group's bank that integrates a self-service offer with the competencies of MPS's financial advisor network.
 MONTE PASCHI BANQUE	Monte Paschi Banque SA is the Group's bank that supports commercial trade and investments by Italian companies abroad.

In addition to the above, i.e. the presence within the Group of a digital bank (Widiba) and a financial intermediary pursuant to art. 106 of the TUB [Testo Unico Bancario, Consolidated Banking Law] for fiduciary services (MP Fiduciaria S.p.A.), there are companies operating in the agricultural sector, both wine and food, with also a real estate component intended for agritourism and hospitality activities (MPS Tenimenti Poggio Bonelli e Chigi Saracini Società Agricola S.p.A.) as well as custody and deposit services for third parties (Magazzini Generali).

Intragroup transactions primarily regard the financial support from the Parent Company to other companies, for the most part in the form of deposits and outsourced services relative to the auxiliary activities provided by the Parent Company (administrative services and property administration).

The description of the main transactions carried out by the Parent Company with its subsidiaries and associates is provided in Part H of the Notes to the Separate Financial Statements of the Parent Company.

⁸ For Monte Paschi Banque S.A., in 2018 the Parent Company resolved to launch the orderly winding-down process by drafting a plan in compliance with the indications contained in Commitment no. 14 "Disposal of participations and businesses", which includes (i) a gradual and orderly deleverage of the current loan portfolio and remaining assets, (ii) acceptance of deposits only from existing customers, excluding the possibility of developing new business and entering new markets. The afore-mentioned Commitment was essentially confirmed as part of the new Commitments related to the 2022-2026 Business Plan, announced on 3 October 2022. The performance of the subsidiary in 2023 is substantially in line with the provisions of the Commitment.



Shareholders

As at 31 December 2023, the Parent Company Banca Monte dei Paschi di Siena S.p.A. share capital amounted to EUR 7,453,450,788.44, broken down into 1,259,689,706 ordinary shares.

According to the communications received pursuant to applicable legislation and based on other information available, as well as on information provided by the CONSOB website, the only entity that, as at 31 December 2023, directly and/or indirectly held ordinary shares representing holdings in excess of 3% of the share capital of the Issuer and not falling among the exemption cases set forth in art. 119-bis of the Issuers' Regulations was the Ministry of Economy and Finance ("MEF") with 39.232%.

To be noted are the main changes that occurred during 2023: on 28 February, AXA SA's shareholding rose from 7.947% to less than 3%; as announced by the MEF on 20 November, the latter reduced its stake from 64.230% to 39.232%, after successfully completing the sale of 314,922,429 ordinary shares, i.e. 25% of the share capital, through an "Accelerated Book Building - ABB" reserved for Italian and foreign institutional investors.

Information on the BMPS share

The BMPS share closed 2023 at a value of EUR 3.05, with a growth of +58.3% recorded in the period. The average daily trading volume stood at around 16.2 million over the year.

SHARE PRICE SUMMARY STATISTICS (from 31/12/2022 to 31/12/2023)	
Average	2.44
Minimum	1.81
Maximum	3.39

Rating

The ratings assigned by the rating agencies are provided below:

Rating Agencies	Short-term debt	Outlook	Long-term debt	Outlook	Latest rating action
Moody's	(P)NP	-	Ba3*	Positive	21/11/23
Fitch	B	-	BB	Stable	10/11/23
DBRS	R-4	Stable	BB (Low)	Stable	17/05/23

* Long-Term Senior Unsecured Debt Rating

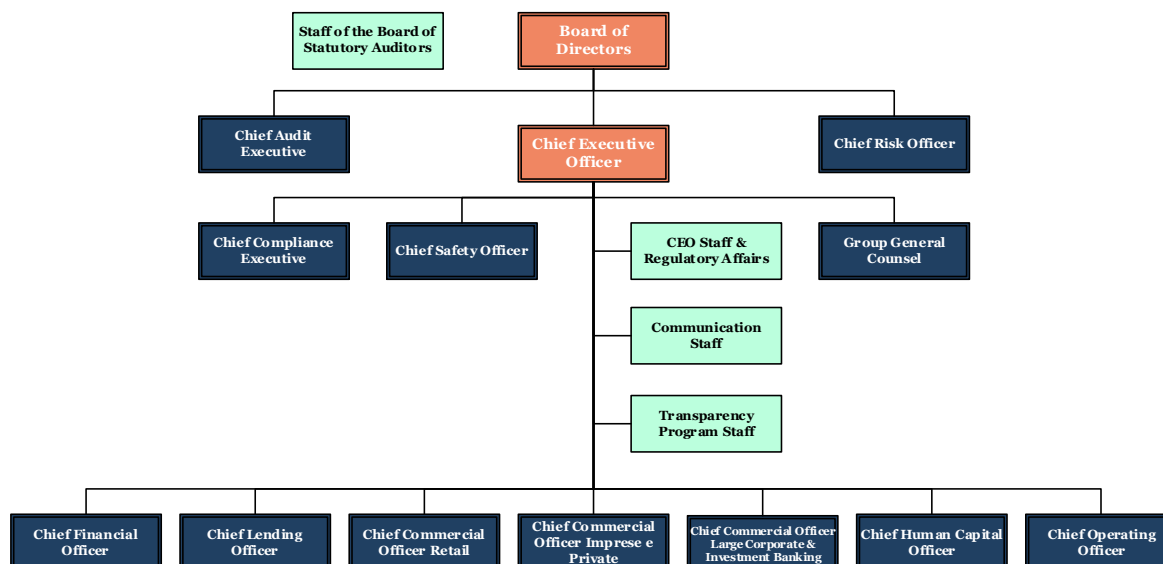
- On **21 November 2023**, the rating agency **Moody's Investors Service** improved the Bank's ratings by 1 notch, bringing the standalone Baseline Credit Assessment ("BCA") rating to "ba3" from "b1", the long-term deposit rating to "Ba1" from "Ba2", and the long-term senior unsecured debt g to "Ba3" from "B1".
- On **10 November 2023**, **Fitch Ratings** improved the Bank's ratings of 2 notches, bringing the Long-Term Issuer Default Rating ("IDR") to "BB" from "B+" and the Viability Rating ("VR") to "bb" from "b+".
- On **17 May 2023**, the rating agency **DBRS Ratings GmbH** upgraded the Bank's ratings by 1 notch, bringing the standalone Intrinsic Assessment ("IA") rating and the long-term senior debt rating to "BB (low)" from "B (high)", and the long-term deposit rating to "BB" from "BB (low)". The subordinated debt rating improved by 2 notches to "B (low)" from "CCC".



Organisational structure

Through its Head Office, Banca Monte dei Paschi di Siena performs functions of direction, coordination and control over the Group's companies, as part of the more general guidelines set out by the Board of Directors and in the interest of the Group's stability.

Organisational chart of the Parent Company's Head Office as at 31 December 2023



The organisational process in 2023 was mainly characterised by the completion of the corporate incorporation transactions and some minor organisational actions.

In February 2023, the responsibilities relating to the Historical Artistic Assets were transferred from the Communication Staff to a specific Staff reporting to the Chief Operating Officer.

In April 2023, the incorporation of the Company MPS Leasing & Factoring was carried out through the establishment of 2 units for the operational management of Leasing and Factoring Products under the Chief Commercial Officer Corporate and Private and the establishment of 1 units for the management of Leasing Credit & Factoring under the Chief Lending Officer.

In May 2023, the incorporation of the Company MPS Capital Services was carried out through the establishment of 3 units for the management of Corporate Finance and Investment Banking, the Trading activities on Derivatives and the management of Hedging Products under the Chief Commercial Officer Large Corporate & Investment Banking and the establishment of 1 units for the management of Structured Credit and Large Corporate under the Chief Lending Officer.

In August 2023, the Data Governance function was repositioned, reporting directly to the Chief Financial Officer.

With respect to Network processes, actions are under way to improve the quality of work, free up more time to be dedicated to sales activities and increase customer service quality, while reducing response/service provision times by streamlining “administrative” activities and document management costs, with a strong orientation towards increasing process digitalisation.



Governance & control systems

Corporate governance

The Parent Company's corporate governance takes into account the objective of creating a system of coordinated rules and units capable of guaranteeing transparent and accurate management of relations with shareholders as well as between them and the directors and top management.

The Parent Company's bodies work so as to pursue the overall proper functioning of the business.

The Parent Company's fair and transparent corporate governance system and shared Code of Ethics provide it with rules to ensure that the legitimate expectations of all stakeholders are incorporated within corporate objectives.

The overall corporate governance system refers to the current code, banking and financial supervisory regulations, the Corporate Governance Code to ensure a clear separation of roles and responsibilities, the appropriate balancing of powers, balanced composition of corporate bodies, effective controls, monitoring of business risks, adequacy of information flows and corporate social responsibility.

In particular, the Parent Company's administration and control system includes the following: the Board of Directors, the Board of Statutory Auditors and the Shareholders' Meeting. In addition, the following were also present: the CEO, who is also General Manager, and four Board committees, specifically, the Risk and Sustainability Committee, the Appointments Committee, the Remuneration Committee and Related-Party Transactions Committee.

In compliance with the provisions of Italian Legislative Decree no. 231/2001, the Parent Company has also established a 231 Supervisory Body entrusted with the task of supervising the functioning and observance of the Model 231, as well as managing its updating.

The Parent Company decided to assign the role of the 231 Supervisory Body to an ad hoc collegial units separate from the Board of Statutory Auditors, which is "mixed" in nature and consists of three members, including two outside professionals and one board member who meets the requirements of independence.

The Parent Company's internal control system is meant to ensure that risks are identified, measured, managed and monitored in such a way so as to enable sound, proper business management in line with pre-established objectives.

Further information on governance, including with regard to the concept of diversity in corporate bodies, is available in the "Report on Corporate Governance and Ownership Structure", available on the Parent Company's website (<https://gruppompis.it/en/corporate-governance/corporate-governance-report.html>).

Risk governance

Risk governance strategies are defined in line with the Group Business Model, medium-term 2022-2026 Business Plan objectives and external regulatory and legal requirements.

Policies relating to the assumption, management, coverage, monitoring and control of risks are defined by the Board of Directors of the Parent Company. Specifically, the Board of Directors periodically defines and approves strategic risk management guidelines and quantitatively expresses the Group's overall risk appetite.

In fact, the Parent Company's Board of Directors defines the overall Risk Appetite Framework (RAF) for the Group and approves the "Group Risk Appetite Statement" (RAS) at least once per year.

The RAF Governance process is centralised within the Parent Company, which outlines its relevant perimeter at Group level and defines its structure in Group companies, according to the risks assumed, size and operational complexity of each legal entity. The RAF defines the roles of corporate bodies and functions involved in defining the "risk appetite" and the procedures to be implemented if it becomes necessary to restore the level of risk to the objective or within the pre-established limits.

The RAS represents an essential element in defining the Group's risk strategy. The RAS is the formal document that contains the explicit declaration of the risk/return objectives/limits (overall, by type and broken down by individual companies/business units) that the Bank intends to assume to pursue its strategies. Therefore, with the RAS, the risk objectives/restrictions are identified and the indicators are broken down by Business Unit/Legal Entity (known as "cascading down" of the Risk Appetite). The objective is to increase the Group's Risk Culture and fully instil accountability in all relevant Business Units with regard to achievement of the risk appetite objectives, as required by the regulations and recommended by best practices.

The Risk Appetite Process is structured so as to ensure consistency with the ICAAP and ILAAP as well as with Planning and Budget and Recovery processes, in terms of governance, roles, responsibilities, metrics, stress testing methods and monitoring of key risk indicators.



In compliance with the guidelines set forth by the Basel Committee and best practices, prudential supervisory provisions for banks require credit institutions to carry out adequate stress testing exercises.

The Group regularly conducts stress tests on all risk factors. Stress tests are used to assess the Group's capacity to absorb large potential losses in extreme yet plausible market situations, so as to identify the measures necessary to reduce the risk profile and preserve assets.

The Group's methodological approach to stress-testing is based upon the identification of the main risk factors, both Pillar 1 and Pillar 2, with the objective of selecting events or combinations of events (scenarios) which reveal specific vulnerabilities at Group level.

The results from the stress tests are submitted to the Top Management and Board of Directors. They are formally examined by the BoD as part of the ICAAP/ILAAP Annual Report approval process, with a view to providing a self-assessment of the current and prospective capital adequacy and liquidity of the Group.

Group risk governance is provided centrally by the Parent Company's Board of Directors, which also supervises and is responsible for the updating and issue of internal policies and the main internal regulations in order to promote and guarantee a continuously greater and more widespread risk culture at all levels of the organisation. Awareness of risks and the correct knowledge and application of the internal processes and models governing those risks - first and foremost for those validated for regulatory purposes - are fundamental requirements for effective, sound and prudent business management.

The Risk Control Function is specifically assigned the task of monitoring the Key Risk Indicators (KRIs), drawing up a periodic report for the Board of Directors and implementing the escalation/authorisation processes in the event that thresholds are exceeded.

The incorporation of macro risk and risk-adjusted performance indicators, consistent with the RAF, within staff remuneration and incentive policies represents an additional tool to promote awareness of the behaviours of all resources and the cultivation of a healthy risk culture.

In reference to the Group's Risk Culture, during 2023 initiatives were pursued regarding corporate bodies (board induction cycles on specific issues) as well as general training initiatives (on-line tools) for all personnel in the areas of risk management and mitigation. In collaboration with the Chief Human Capital Officer Department, the Chief Risk Officer Department continued, from the previous year, the project aimed at all Group personnel on the topic of "Risk Culture", through a programme of online classes and eLearning tools in which risk-related issues were presented both in terms of the frameworks adopted by the Bank and in relation to situations reflecting the Bank's typical operations. The interventions and related contents – then made available on the e-learning platform – focused in particular on anti-money laundering issues (ongoing developments and focus on issues related to the NRRP), and Sustainability (with a focus on the cross-company nature of the topic), the Stress Tests, the credit ratings as well as the role and activities of the Internal Validation Function.

Furthermore, during 2023 internal initiatives proceeded to ensure continued compliance with national and international regulatory provisions.

The ICAAP and ILAAP packages were sent to the Regulator in accordance with the ECB's regulatory prescriptions regarding the *"Technical implementation of the EBA Guidelines on ICAAP/ILAAP information for SREP Purposes"* (Supervisory Review and Evaluation Process), as well as in line with the *"ECB Guide to the Internal Capital and Liquidity Adequacy Assessment Process (ICAAP/ILAAP)"*, issued in November 2018.

In 2023, the Montepaschi Group participated in the EU-wide Stress Test conducted by the European Banking Authority (EBA), in collaboration with the European Central Bank (ECB) and the European Systemic Risk Board, ESRB. The results, the best ever, confirmed the strong solidity achieved by the Group and its ability to generate sustainable profitability, as evidenced by the positive net results.

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

Compliance systems

Within the broader internal control system, the Compliance Function of the Parent Company autonomously and independently governs non-compliance risk at Group level, periodically reporting to Top Management and Supervisory Authorities on the overall status of compliance of systems, processes, and operations.

During 2023, there were no changes to the organisational structure of the Department.

In 2023, the activities relating to the Action Plan conducted in 2022 relating to the Company Control Functions (CCF) were concluded in order to assess their compliance with regulatory requirements as well as to verify the efficiency and effectiveness of the control processes.



The actions undertaken were mainly aimed at focusing the controls on:

- “Anti Financial Crime” (i.e. fight against money laundering and terrorist financing, sanctions, embargoes, Italian Legislative Decree 231/01, anti-corruption, anti-trust, market abuse, usury, cyber security, fraud, etc.) for the entire MPS Group. For these aspects, in 2023, the Compliance Function has identified the internal structure that will develop the project independently;
- AGCM (Unfair Commercial Practices/Antitrust Model), defining the activities that fall within its scope and complementing the body of legislation to regulate the safeguards against unfair commercial practices in line with industry best practice;
- Privacy, reviewing the body of legislation on privacy, implementing IT procedures for the deletion of personal data relating to disputes with customers and employees from IT archives and adapting the IT procedures with the implementations envisaged for the DPO tools in Single GRC.

Lastly, additional activities were also carried out during the year, particularly in matters related to:

- regulatory adjustments necessary to ensure compliance in relation to the entry into force of the 40th update of the Circular 285/13 Bankit, with the review of the process documents and company documents on the subject matter, of the regulatory requirements and progressively of the ICT contracts with Third Parties, as well as the preparation of the Information Technology e Information Security 2024-2026 Strategic Plan;
- improvement of the effectiveness of Compliance activities, with the development of digitalisation solutions;
- implementation of additional continuous monitoring tools with the development of Robotic Process Automation solutions for repetitive activities;
- updating of the 231/2001 Model in order to include the new predicate offences and adapt it to the organisational and corporate perimeter deriving from the incorporations of the Strategic Plan;
- following the final activities of the Transparency Program.

Remuneration Policy

The Group’s remuneration and incentive policies are described every year in the “Report on the remuneration policy and on compensation paid”, prepared under art. 123-ter of the Consolidated Law on Finance and subject to approval by the Shareholders’ Meeting.

(<https://www.gruppompis.it/en/corporate-governance/remuneration.html>)

The adoption of management choices geared to the creation of long-term sustainable value and the enhancement of professionalism reflect a corporate culture based on the ethics of responsibility, with constant care for the growth of human capital and the creation of a strong spirit of belonging. The promotion of plurality, inclusion and fairness, including gender equality, are part of the evolutionary journey undertaken by the Group in recent years in line with its history, of which remuneration policies are an integral part. With this in mind, the Group’s remuneration policies, while maintaining a continuous focus on the link between remuneration, risk and sustainability of performance, contribute to the definition of short and long-term business strategies, also aiming to retain employees, enhancing their merit and skills as well as supporting professional growth opportunities. The definition of remuneration structures reflects these guidelines and is carried out in correlation with the applicable market practices using the weighing of company positions, which allows for a continuous and more precise assessment of both internal fairness, by checking the consistency of the remuneration packages of resources at the same classification level, and external competitiveness through market benchmarking.

Remuneration and incentive policies also represent an important managerial lever to guide management and staff towards inclusive and widespread leadership, as well as a strategic lever in pursuing the goal of achieving sustainable value, by appropriately balancing and sizing the variable component of remuneration with respect to the fixed component and ensuring that the variable part of remuneration is connected, among other things, to performance parameters tied to ESG objectives.



Distribution channels

The Group operates with a view to developing and rationalising its distribution network, by combining regional coverage with the strengthening of innovative channels.

Traditional domestic branches are flanked by specialised shopping centres, which handle relational follow-up and the specific management of particular customer segments (e.g. Small and Medium Enterprises, Private, etc.) and by 566 Financial Advisors (552 as at 31 December 2022) who carry out their activities by having offices open to the public distributed throughout the country.

MONTEPASCHI GROUP - DISTRIBUTION NETWORK ITALY AS AT 31/12/2023									
									
Region	Domestic branches ^(*)	Inc.	Client Centres ^(**)					Financial Advisory Offices	Inc.
			SME	Family Office	Private	Tot.	Inc.		
Emilia Romagna	87	6.4%	5		6	11	8.7%	8	7.3%
Friuli Venezia Giulia	35	2.6%	3		1	4	3.1%	3	2.8%
Liguria	17	1.2%	1		1	2	1.6%	4	3.7%
Lombardia	189	13.9%	10	1	7	18	14.2%	10	9.2%
Piemonte	33	2.4%	2		1	3	2.4%	2	1.8%
Trentino Alto Adige	2	0.1%						1	0.9%
Valle d'Aosta	2	0.1%							
Veneto	179	13.1%	13	1	6	20	15.7%	5	4.6%
Northern Italy	544	39.9%	34	2	22	58	45.7%	33	30.3%
Abruzzo	27	2.0%	2		1	3	2.4%	3	2.8%
Lazio	113	8.3%	5	2	3	10	7.9%	11	10.1%
Marche	35	2.6%	4		1	5	3.9%	4	3.7%
Molise	4	0.3%						1	0.9%
Toscana	297	21.8%	11	1	8	20	15.7%	8	7.3%
Umbria	33	2.4%	2		2	4	3.1%	4	3.7%
Central Italy	509	37.4%	24	3	15	42	33.1%	31	28.4%
Basilicata	10	0.7%						2	1.8%
Calabria	37	2.7%	1			1	0.8%	2	1.8%
Campania	77	5.7%	4	1	3	8	6.3%	17	15.6%
Puglia	81	5.9%	6		4	10	7.9%	15	13.8%
Sardegna	10	0.7%	1		1	2	1.6%	2	1.8%
Sicilia	94	6.9%	3		3	6	4.7%	7	6.4%
Southern Italy and island	309	22.7%	15	1	11	27	21.3%	45	41.3%
Total	1,362	100.0%	73	6	48	127	100.0%	109	100.0%

(*) Reports to the Bank of Italy Supervisory Authority relating to Banca MPS

(**) of which no. 7 reports to the Bank of Italy Supervisory Authority as centre and branch did not coincide.

At the end of 2023, the **Italy Network** had **1,362 branches⁹** surveyed by the supervisory authority, a figure unchanged compared to 31 December 2022.

The Group also makes use of **127 Specialised Centres** (127 also as at 31 December 2022), of which 73 dedicated to Enterprises, 48 to Private customers and 6 to the Family Office.

The Group's **ATM network** comprises a total of **2,542 machines** (-27 compared to 31 December 2022), of which 2,017 coinciding with traditional branches (1,611 of these are located on premises with an independent entrance also accessible outside of branch hours) and 525 installed in public places with high operational potential, of which

⁹ In January 2024, 50 branches were closed in line with the provisions of the commitments set out in the 2022-2026 Strategic Plan.



82 in institutions/companies. There are 1,326 ATM machines equipped with “cash in” functionality (of which 919 are located in the Self Area, 398 inside branches, 1 inside institutions/companies and 8 installed in public places).

The Group has an inter

national presence with a Foreign Network geographically distributed in major financial and economic markets and in several emerging countries with high growth rate, with significant trading relations with Italy, currently structured as follows:

- **1 operational branch** in Shanghai;
- **8 representative offices** in target areas of Europe, North Africa, India and China;
- **no. 1 foreign bank**, namely Monte Paschi Banque S.A., operating in France, for which the Parent Company resolved in 2018 to launch the orderly winding-down process.

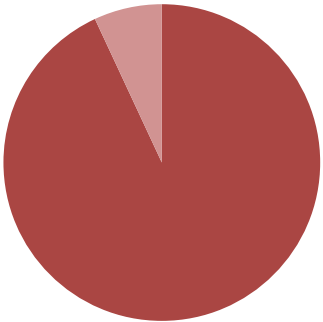
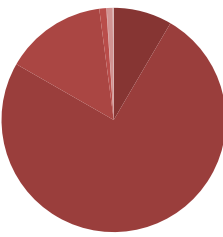
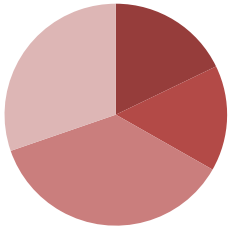
In addition to its physical presence across the country, the Parent Company offers banking services to customers through electronic channels with internet banking products for Retail and Corporate customers. As at 31 December 2023, there were 1,472,001 active users (+76,392 compared to 31 December 2022). Internet banking services for retail customers and corporate customers are 1,338,129 and 133,872 respectively.



Customer base

As at 31 December 2023, the Group¹⁰ had around 3.6 mln customers, substantially stable compared to 31 December 2022. Customers as at 31 December 2023 are broken down as follows:

- About 3.3 mln (substantially stable compared to 31 December 2022) are managed by the Sales and Distribution Network of the Parent Company Monte dei Paschi di Siena Bank;
- about 0.2 mln (substantially stable compared to 31 December 2022) are managed exclusively by Widiba, the Group's online bank.

Customer Breakdown	Sales & Distribution Network
Breakdown by type  ■ Distribution Network - 93.1% ■ Widiba - 6.9%	Breakdown by type  ■ Small Business - 8.4% ■ Valore - 74.8% ■ Premium - 14.7% ■ Private - 1% ■ Family Office - 0.06% ■ SMEs and other companies - 0.9% ■ Corporate client - 0.1% ■ Large Corporate - 0.03% Breakdown by geography  ■ North East - 17.8% ■ North West - 15.4% ■ Centre - 36.5% ■ South - 30.3%

At the end of 2023, the Retention and Acquisition indicators stood at 94.3% and 4.0% respectively, showing substantial stability compared to 2022.¹¹

¹⁰ Intended as the sum of the total MPS and Widiba Network, excluding the customers of the other Group companies.

¹¹ The indicators refer only to the Parent Company and have been cleared of the effect of the migration of customers to Widiba carried out in the last financial years.



Reference context

In 2023, the cyclical slowdown affected the economies to varying degrees: the slowdown was evident in European countries, while in the US the expansion was solid, especially in the summer; in China, activity increased less than expected. World trade has shrunk. Monetary policy remained restrictive, contributing to a weakening of demand. At the same time, the gradual normalisation of energy commodity prices and the return to functioning of supply chains have allowed a marked recomposition of global inflation in the last months of 2023. Towards the end of the year, the outbreak of the Israeli-Palestine conflict fuelled tensions in the Middle East, with hostilities that recently involved strategic areas for navigation in the Suez Canal; the geopolitical escalation, which is accompanied by the continuation of the war in Ukraine, fuels uncertainty about future inflation dynamics, the start of monetary easing and growth prospects.

In the **United States**, growth showed some strength, with GDP which, after the acceleration recorded in the third quarter (+4.9% annualised QoQ), slowed down less than expected in the fourth quarter (+3.3% annualized QoQ in preliminary reading); the robust monetary tightening is in any case holding back consumption in a context of pandemic savings that are nearing its end. In the labour market, normalisation continued, with the gradual absorption of excess demand. On the real estate market, the increase in permits for new residential homes provided the first signs of breaking through cyclical lows. Over the year, the recomposition of core inflation continued gradually, while the general price index has been alternating phases of slight recovery since the summer; the December reading recorded higher-than-expected levels in the general inflation component (up to 3.4% y/y from 3.1% y/y in November) and in the core inflation component (down slightly to 3.9% y/y).¹² After the summer downgrade of Fitch on the US rating (lowered to AA+ with stable outlook), in November Moody's confirmed the "Aaa" rating by revising the outlook to negative.

In the **Eurozone**, growth was stagnant in the second part of the year, with GDP that, after the slight contraction recorded in the third quarter, achieved zero expansion in the fourth (preliminary estimate). The more restrictive financing conditions impacted the manufacturing and construction sectors, while foreign demand was modest. In particular, Germany recorded a contraction in growth in the fourth quarter of the year (-0.3% preliminary QQ), penalised by the distress of the industrial sector. The resilience of the labour market and wage growth supported disposable income formation, but unlike US households, European households saved more by cutting back on consumption. With the recomposition of energy prices, inflation declined substantially in 2023, although it rebounded slightly at the end of the year (+2.9% y/y from +2.4% y/y in November); the core component also declined, but at a more moderate pace (+3.4% y/y in December).

As far as the reform of European tax governance is concerned, at the end of 2023, when the period of suspension of EU fiscal rules expires, the Budget Planning Documents submitted by individual countries will again be assessed based on quantitative recommendations. In December, the finance ministers of the twenty-seven member countries of the European Union reached an agreement to reform the Stability and Growth Pact to be negotiated with the EU Parliament and Commission. The agreement incorporates the innovations of the legislative proposal presented by the Commission in the spring, namely the centrality of the medium-term debt sustainability analysis and the role of negotiations with each participating country in defining the consolidation process. However, the agreement added numerical criteria, the same for all members, which constrain the dynamics of the debt and the structural deficit.

In March 2023, following the Russian conflict in Ukraine, the EU Commission adopted a new Temporary Crisis and Transitional Framework for state aid, which replaces the previous one and allows, also in 2024, interventions by way of derogation from the regular state aid guidelines.¹³

Among the **emerging countries**, growth in China has been slower than expected as a result of the abandonment of the "zero-covid" policy. GDP rose by 5.2% YoY in 2023, still hitting the annual government target of "around 5%". The current deflation¹⁴, the difficulties of the real estate sector, the high youth unemployment have restrained expansion. However, during the year, Beijing has implemented policy rate cuts, liquidity injections and investment incentives (especially in real estate) to stimulate growth. Among the other economies, India has showed a strong expansion (well above 7% on average per year in the second half of 2023) and although the country is experiencing increasing geopolitical tensions, it aspires to become the new production localisation hub for major global manufacturers. After the 2022 recession, Russia started to grow again.

¹² Core inflation, i.e. index without the most volatile components (food and energy).

¹³ The new Temporary framework provides, with various deadlines set for 2024, for a limited amount aid and for some aid to offset high energy prices, liquidity support through state guarantees, subsidised loans, measures to support the transition set out in the REPowerEU.

¹⁴ Chinese inflation recorded negative growth rates on an annual basis in the last quarter of the year.



Italy: economic context

In **Italy**, after a positive first quarter of the year, growth contracted in economic terms in the spring and then showed a slight recovery in the second half of the year. Despite stagnant consumption and limited investments, in the fourth quarter GDP grew by 0.2% QoQ (preliminary estimate), thanks to the positive contribution of the net foreign component and reflecting the increase in added value in the manufacturing and services sectors. Construction benefited from incentives throughout 2023 but the tightening of financing conditions weighed on the real estate market. In the labour market, employment continued to grow and the trend in wages strengthened. The decline in inflation became more pronounced over the months, extending to non-energy industrial goods and services: in December, the national consumer price index for the entire community (NIC) stood at 0.6% YoY from 9.6% YoY at the start of the year; core inflation stood at 3.1% YoY in December.

The government's actions in 2023 included measures to support energy-intensive businesses and households with high electricity consumption. The government has also implemented a revision of the building tax benefits introduced by Italian Law Decree 34/2020 (the so-called "Sostegni" [Support] Decree)

Among the measures adopted, some had an impact on the banking system, which involved the acquisition of receivables accrued and sold by companies with a high consumption of electricity and as part of building renovations. These include: Italian Law Decree no. 11 of 16 February 2023 ("Cessione di Crediti" [Transfer of Credit] Law Decree); Italian Law Decree no. 34 of 30 March 2023 ("Decreto Bollette" [Bills Decree]); Italian Law Decree no. 57 of 29 May 2023, which includes the measures to combat the increase in prices in the electricity sector set out in Italian Law Decree 79/2023.

Following the flooding events in the spring, the Government approved a number of measures (Italian Law Decree no. 61/2023) to increase the interventions of the Guarantee Fund for small and medium-sized enterprises located in the flooded areas and the suspension in their favour of some tax and contribution deadlines as well as for related mortgages and loans.

On 15 June 2023, the Council of Ministers approved the European Delegation Law, still under discussion in the Senate, which incorporates rules on: i) credit managers and credit purchasers; ii) prudential treatment of credit institutions and investment firms of systemic importance (amending Directive 2014/59 - BRRD Bank Recovery Resolution Directive, implemented with Italian Legislative Decree 180/2015); iii) controls on cash with a value equal to or greater than EUR 10,000 joining/leaving the Union; iv) digital operational resilience for the financial sector.

On 31 December 2023, the Houses of Parliament approved the Budget Law 2024, whose measures to support families include: the revision of the guarantee fund for the first home, facilities for the purchase of a home, and the revision of regulations on fringe benefits; while measures to support businesses include: the IRPEF reform, the cut in the tax wedge, higher deductions, a single SEZ (Special Economic Zone) in the south of Italy, additional resources for development contracts, the New Sabatini, and the sustainable growth fund.

On 28 December 2023, the Council of Ministers approved the "Milleproroghe" Law Decree which, although still under discussion for the conversion into Law, introduces urgent measures relating to the 110% Superbonus tax concessions and provides for the extension of soon-to-be-expiring terms in the area of economy and finance, foreign affairs and international cooperation and building bonuses. Four legislative decrees implementing the delegation to the Government for tax reform have also been approved (Law no. 111 of 9 August 2023), including the one that reorganises the IRPEF.

With regard to the NRRP, implementation criticalities and the inclusion of the new chapter *REPowerEU*¹⁵ required a structural review of the Plan, by the Italian Government, which was definitively approved by the EU Council in December. The updated plan provided for the cancellation of 4 measures and the reshaping of a further 87, as well as the introduction of 29 new measures; resources were reallocated between and within the various missions; the total ceiling increased to almost EUR 195 billion, thanks to the *REPowerEU* programme subsidies; at the same time, the instalments of incoming funding from the EU were rescheduled, with a forward postponement compared to the previous planning. The payment of the fourth instalment took place in December 2023 and brought the total resources obtained so far by Italy under the NRRP to approx. EUR 102 bn.

On 21 December 2023, the Italian Parliament rejected the proposed law to ratify the amendment to the treaty establishing the European Stability Mechanism (ESM).

¹⁵ The *REPowerEU* plan was launched by the EU Commission on 18 May 2022, with the aim of saving energy, producing clean energy and diversifying energy supply. The resources mobilised are approximately EUR 200 bn. Access to funds by countries is subject to the introduction of a dedicated chapter in the NRRPs.



Financial markets and monetary policy

During 2023, the stock markets were affected by the volatility linked to factors such as the slowdown in the global cycle, geopolitical tensions, the Chinese real estate crisis, the downgrading of US debt and turbulence in the international banking system. Nevertheless, the stock markets made across-the-board gains, closing 2023 in many cases on the highs of the year, thanks in part to the marked acceleration since last October on expectations of a possible anticipated monetary normalisation. Since the beginning of the year, as at 31 December 2023, the FTSE Mib rose by approximately 28%; similar performance was recorded by the Nikkei; the S&P 500 gained just over 24%; the Euro Stoxx rose by around 19%. The Chinese Shanghai Shenzhen CSI 300, on the other hand, lost more than 11%, reflecting fears about the strength of the domestic economic recovery and the difficulties emerged in the real estate market.

During 2023, long-term government yields in the US and the Eurozone reacted to expectations about the impact of the monetary restriction. Ten-year yields rose to their highest levels in October (Treasury just under 5% and Bund just under 3%), with operators discounting expectations of high policy rates for a long time to come. At the end of the year, yields reversed the trend, decreasing on expectations of less restrictive monetary policies in the short term. The US ten-year period closed at 31 December 2023 at 3.88%, practically unchanged on the levels at the end of 2022; Germany fell to 2.02% (from 2.57% as at 31 December 2022). The Italian ten-year rate, which rose to close to 5% in October, then fell sharply ending the year at 3.7% (102 basis points less from the end of 2022). After a gradual decline in the first half of the year, the BTP10Y-Bund spread was affected by some tensions since the summer and returned to above 200 basis points in October; the pressures subsequently eased with the confirmation of the Italy's rating by the main rating agencies.¹⁶ The spread closed the year at 168 basis points from 214 at the end of 2022.

With the aim of recomposing inflationary pressures, the monetary authorities continued their restrictive interventions until reaching, in the second half of the year, the likely peaks in their policy rate hike cycles. In 2023, the Fed stepped in with 25 basis point increases in the Fed Fund rate at its February, March and May meetings; it paused in June and made a final 25 basis point increase in July before stopping. Since the summer, the cost of money in the USA has thus risen in the range of 5.25% -5.50% compared to 4.25%-4.50% at the end of 2022. Unchanged rates were confirmed by the Fed in both December 2023 and January 2024 and the statement of the FOMC members issued at the first meeting of 2024 signalled the approach of a rate cut phase.¹⁷ Chairman Powell made it clear that a cut in the cost of money at the next meeting in March is not the most likely scenario. The Fed also continued to reduce its securities portfolio as planned (quantitative tightening).

In 2023, the ECB pursued a more intense monetary tightening than the Fed, making two 50-basis-point hikes in February and March and four 25-basis-point hikes in May, June, July and September, respectively, before breaking the cycle of hikes. The rate on the main refinancing operations thus stabilised, since last September, at 4.50% (from 2.50% at the end of 2022). The rate on deposits with the central bank stood at 4% and the rate on the marginal refinancing transactions at 4.75%. In December, the ECB reiterated that key interest rates were at levels that, if maintained for a sufficiently long period, will make a substantial contribution to the achievement of the inflation target of 2%. Also in December, the ECB decided to increase the normalisation of its balance sheet assets (quantitative tightening) by announcing the reduction, through non-reinvestment of maturing securities, of the securities portfolio linked to the Pandemic Emergency Purchase Program (PEPP),¹⁸ at a rate of 7.5 billion per month from the second half of 2024 and a complete discontinuation of reinvestments at the end of 2024. In the first meeting of 2024, the ECB kept the rates unchanged, making no changes to what was announced in December and reiterating its data-dependent monetary policy approach. Although it acknowledged the improvement in the inflationary scenario accompanied by signs of a slight slowdown in wage trends, the chairman Lagarde stressed that, at the moment, there is a consensus within the Board that it is premature to discuss a rate cut. Since last summer, the Authority decided to set the remuneration of the mandatory reserves held by the banks with the ECB at 0%.

¹⁶ In October, S&P and DBRS confirmed their Italy ratings at BBB and BBB (high), respectively, keeping their outlook stable. In November, Fitch and Moody's also confirmed their rating for Italy: BBB with stable outlook and Baa3 with improved outlook from negative to stable, respectively.

¹⁷ The Fed's Federal Open Market Committee

¹⁸ Since last March, the ECB has reduced the amounts of securities held by the Eurosystem as part of the Asset Purchase Program (APP) at a measured and predictable pace (approx. EUR 15 bn per month), putting an end to reinvestments in the area of the PAA starting from July 2023.



Significant events in 2023

On **19 January 2023**, as part of the complete pension reform process launched in 2019, the Group carried out the merger of nine defined benefit pension forms present in the MPS Group, within a specific section of the Monte dei Paschi di Siena Pension Fund, without prejudice to the maintenance of the commitment for the future to cover any deficiencies in coverage necessary for the disbursement of social security benefits by the MPS Fund. The transaction, effective as at 1 January 2023, essentially involved:

- the transfer to the MPS Fund of monetary resources equal to the mathematical reserves of the funds at the effective date and the simultaneous release of the segregated assets in the financial statements for the funded funds;
- the simultaneous forfeiture of surpluses, i.e. the surplus of the assets of the funded funds over the mathematical reserves, so far not recognised in the Financial Statements.

On **26 January 2023**, Consob published its 16-31 January Bulletin in which it announced with reference to Banca MPS that, taking into account (i) the capital increase and (ii) the consequent overcoming of the situation pursuant to Article 2446 of the Italian Civil Code, the monthly disclosure requirements set forth in letter a) of the provision of 22 April 2021 had been exceeded as the significant doubts on the company's ability to continue as a going concern that had been declared in the reports prior to the interim report on operations as at 30 September 2022 had been overcome. In detail, with the aforementioned provision, the Authority had asked the Parent Company to publish, pursuant to art. 114, paragraph 5 of the Consolidated Law on Finance, periodic monthly information taking into account (i) the presence in the independent auditors' report on the financial statements as at 31 December 2020 of the emphasis of matter paragraph on the significant uncertainties on the going concern and (ii) the exceeding of the limit set forth in Article 2446 of the Italian Civil Code with reference to the separate financial statements as at 31 December 2020. The obligation remains pursuant to letter b) of the aforementioned provision of 22 April 2021 referring to the information to be provided on a quarterly basis on the status of the implementation of the business and financial plan, highlighting the deviations of the actual figures from the projected ones.

On **16 February 2023**, the rating agency Moody's Investors Service improved the Bank's ratings by 2 notches, bringing the standalone Baseline Credit Assessment ("BCA") rating to "b1" from "b3", the long-term deposit rating to "Ba2" from "B1", and the subordinated debt rating to "B2" from "Caa1". The rating of the long-term senior unsecured debt was upgraded by 3 notches to "B1" from "Caa1".

On **23 February 2023**, the Parent Company successfully concluded the placement of a Senior Preferred unsecured fixed-rate bond issue with maturity in 3 years (repayable in advance after 2 years), intended for institutional investors, for an amount of EUR 750 mln and a coupon set at a level of 6.75%.

On **23 March 2023**, the chairman of Banca Monte dei Paschi di Siena S.p.A., Patrizia Grieco, resigned.

On **20 April 2023**, the Shareholders' Meeting resolved, inter alia, the appointment for the 2023-2025 three-year period of 15 members of the Board of Directors under the chairmanship of Nicola Maione. On the same date, the Board of Directors resolved, inter alia, to confirm Mr. Luigi Lovaglio, as Chief Executive Officer of the Bank.

On **24 April 2023** and **29 May 2023**, the merger by incorporation into the Parent Company of the two wholly-owned subsidiaries, MPS Leasing & Factoring S.p.A. and MPS Capital Services Banca per le Imprese S.p.A., was completed. Both transactions became effective for accounting and tax purposes from 1 January 2023 and took place according to the simplified format envisaged for wholly-owned companies. The transactions had no impact on the financial position and result of operations of the MPS Group as they were recognised in the Financial Statements of the Parent Company, adopting the principle of accounting continuity in reference to the figures resulting from the Group's Consolidated Financial Statements at the date of transfer of the assets.

On **9 May 2023**, the Board of Directors of Banca Monte dei Paschi di Siena S.p.A. unanimously appointed the Independent Director Marco Giorgino as Lead Independent Director of the Bank.

On **17 May 2023**, the rating agency DBRS Ratings GmbH upgraded the Bank's ratings by 1 notch, bringing the standalone Intrinsic Assessment ("IA") rating and the long-term senior debt rating to "BB (low)" from "B (high)". The long-term deposit rating was raised to "BB" from "BB (low)". The subordinated debt rating improved by 2 notches to "B (low)" from "CCC".

On **31 May 2023**, the rating agency Moody's Investors Service improved the outlook on long-term deposits and senior unsecured debt ratings from stable to positive, after the rating upgrades in February.

On **30 June**, an agreement was reached between the five leading Italian insurance companies (Allianz Italia, Intesa Sanpaolo Vita, Generali Italia, Poste Vita and UnipolSai), twenty-five banks distributing Eurovita policies and some of the main Italian banks (Intesa Sanpaolo, BPER Banca, Banco BPM, BMPS, Credit Agricole and Mediobanca)



on a system transaction to protect Eurovita policyholders, as a result of which IVASS, in order to guarantee to all parties involved the technical time required to complete the Transaction, extended the suspension of early surrender of insurance and capitalisation contracts entered into with Eurovita S.p.A. to 31 October 2023. The overall transaction involved, on the one hand, the sale of Eurovita's business assets - including, inter alia, the contracts and business relating to insurance products and intermediation contracts with distributors as well as the assets contained in the relative separate management schemes - firstly, to a newly established insurance company, Cronos Vita S.p.A., in which the five insurance companies mentioned above have an equity investment, against a dedicated capital increase, and - secondly - the granting of financing facilities to Cronos Vita by the financial institutions that distribute Eurovita policies (also assisted, for any further support required, by a pool of banks) to meet the potential redemptions of first and fifth class policies placed by each institution. It should be specified that Cronos Vita is configured as a bridge vehicle: at the conclusion of the transaction, approximately in 18-24 months, the insurance portfolio of Eurovita will be, in fact, taken over by the five insurance groups mentioned.

The agreements signed provide for a specific framework of commissions, supplementing the existing distribution agreements, which the placement banks shall pay to Cronos Vita for the performance of servicing activities, with the aim of preserving and reactivating trading relations with the customers who have taken out the policies.

Following the agreements at the end of June, on 28 September, Cronos Vita submitted a request to IVASS for the authorisation of the insurance business, which, upon a preliminary investigation, was issued on 17 October 2023. Lastly, on 31 October 2023, following the issue of the authorisation for the sale of the business assets from Eurovita to Cronos Vita by IVASS and the stipulation of the definitive binding agreements, the transfer of the assets was completed together with the simultaneous capital increase subscribed by the insurance companies for EUR 213 mln, which represents the second and final tranche of a total capital increase of EUR 220 mln, whose adequacy from an economic-financial point of view was supported by a specific opinion issued by an independent expert.

The Parent Company was involved in the above-mentioned "system" solution both directly, in negotiation of the pool loan, for the portion made available by the system banks (EUR 980 mln in total, of which EUR 74.6 mln as BMPS share), and indirectly, through the subsidiary Banca Widiba S.p.A., as placement bank for the Eurovita policies (essentially Class III) with its customers, involved in connection with the transaction cost rebalancing agreement, and therefore obligated to pay the aforementioned fees.

On **28 July 2023**, the EBA announced the results of its 2023 EU-wide stress test in which Banca MPS also participated. The 2023 EU-wide stress test was conducted by the EBA, in collaboration with the ECB and the European Systemic Risk Board (ESRB). The adverse stress test scenario was developed by the ECB and ESRB and covers a three-year time horizon (2023-2025). The stress test was conducted assuming a static balance sheet at the end of December 2022 as well as a series of constraints on the evolution of the income statement.

The post-stress test fully loaded Common Equity Tier 1 ratio (CET1%) of Banca MPS as at 2025 (in brackets the change compared to the 15.64% as at 31 December 2022) is equal to:

- Base scenario
18.61% (+297 bps) which rises to 19.83% (+419 bps), factoring in the effect of the reduction in personnel costs indicated below;
- Adverse scenario
10.13% (-551 bps) rising to 11.98% (-366 bps), factoring in the effect of the reduction in personnel costs indicated below.

For the Parent Company Banca MPS, due to methodological constraints as indicated in the note from the EBA, the results do not consider the benefits - in terms of higher profits and capital generation - of the reduction in personnel costs of EUR 857 mln in the period 2023-2025, resulting from the exit on 1 December 2022 of over 4,000 staff.

The 2023 European stress test does not envisage meeting minimum thresholds: it is designed to be used for the Supervisory Review and Evaluation Process (SREP). The results will provide support to the competent authorities in assessing the Group's ability to meet prudential capital requirements in stress scenarios.

On **29 August 2023**, the Parent Company successfully concluded the placement of a 4-year Senior Preferred unsecured fixed-rate bond issue (with early repayment option after 3 years), intended for institutional investors, for an amount of EUR 500 mln and a coupon set at a level of 6.75%.

On **10 November 2023**, Fitch Ratings improved the Bank's ratings by 2 notches, bringing the Long-Term Issuer Default Rating ("IDR") to "BB" from "B+" and the Viability Rating ("VR") to "bb" from "b+". The outlook remains stable.



On **11 October 2023**, as part of criminal proceedings 29634/14, the Supreme Court declared inadmissible the appeal of the General Prosecutor's Office against the acquittals on appeal of the former top management of Banca MPS and of the foreign banks Nomura and Deutsche Bank, resulting in the *res judicata* of the acquittal decision of 6 May 2022 "because the fact does not exist" issued by the Court of Appeal of Milan.

On **9 November 2023**, as part of the ongoing legal dispute with the Alken funds, the Court of Appeal of Milan issued the second instance ruling which: (i) confirmed the first instance ruling regarding the absence of liability by the Bank in the dissemination of information in the period 2014 and 2015 and (ii) reformed in favour of the Bank also the part of the ruling relating to the "ante restatement" period, confirming the validity of the operations of Banca MPS also in these operations.

On **13 November 2023**, Mr. Marco Giorgino resigned from the office of Director of the Bank, as this role is incompatible with the position of Director of Mediobanca, which he agreed to take.

On **22 November 2023**, the rating agency Moody's Investors Service improved the Bank's ratings by 1 notch, raising the standalone Baseline Credit Assessment ("BCA") rating to "ba3" from "b1", the long-term deposit rating to "Ba1" from "Ba2", and the long-term senior unsecured debt rating to "Ba3" from "B1".

On **4 December 2023**, the Bank received notification of the European Central Bank's final decision regarding the capital requirements to be met on a consolidated basis from 1 January 2024. The "P2G" Pillar II Capital Guidance, set at 1.15%, was significantly reduced compared to the current levels of 2.50%, which reflects the positive results of the EBA stress test conducted in 2023. Furthermore, as a result of the process carried out by the Bank of Italy for the identification of Institutions of national systemic importance (O-SII), the Bank is no longer identified as an O-SII and therefore, starting from 1 January 2024, the requirement for an additional capital buffer of 25 bps no longer applies.

The overall minimum requirement in terms of Common Equity Tier 1 ratio is reduced to 8.56%, the sum of Pillar 1 - P1R (4.50%), Pillar 2 - P2R (1.55%, unchanged) and Combined Buffer Requirement - CBR (at that time 2.515%). Similarly, the overall minimum requirement in terms of Total Capital ratio is reduced to 13.27%.

On **11 December 2023**, as part of criminal proceedings 955/16, the Court of Appeal of Milan issued a ruling which, completely overturning the first instance ruling, acquitted the former top management of Banca MPS and the Bank itself "because the fact does not exist".

On **14 December 2023**, the Bank's Board of Directors appointed Laura Martiniello as a new member of the Risk and Sustainability Committee and appointed Paola De Martini and Lucia Foti Belligambi as new members of the Remuneration Committee. The Risk and Sustainability Committee also appointed as its Chair, replacing Prof. Marco Giorgino, Ms Alessandra Giuseppina Barzaghi, an independent director and already a member of the same Committee.

On **28 December 2023**, the Group obtained the "Gender Equality Certification", following a positive outcome regarding the assessment process conducted in accordance with the standards set out in the National Recovery and Resilience Plan (NRRP).

For details on the aforementioned favourable rulings issued in the last quarter of 2023 in the context of civil and criminal litigation, related to the financial information disclosed in previous years, and their impacts on the Group's financial position and income statement as well as on the representation of risks as at 31 December 2023, please refer to Tables 10.2 bis, 10.6 of Part B, Table 13.3 of Part C, and Part E- "Information on risks and hedging policies", paragraph "Main types of legal, employment and tax risks" of these Notes to the financial statements.



Human Resources

In line with the objectives and timetable of the 2022-2026 Business Plan, the main aspects of the human resources measures in 2023 were: the activation of professional career paths and the definition of key roles, with a focus on the commercial network; a multidimensional training model based on risk-based principles, with a training plan financed entirely by sector funds; reskilling plans for 2,000 resources following the reorganisation; consolidation of the company *welfare* system; and the promotion of inclusion through a Diversity & Inclusion plan. Moreover, to supplement the remuneration offer that until 2022 was based only on fixed remuneration, the remuneration and incentive policies have introduced a company bonus - defined through a trade union agreement that also provides for its disbursement in “welfare” - and an incentive system, both of which are subject to the achievement of Group objectives.¹⁹ These systems represent a strategic lever for the enhancement of human capital, guarantee sustainable development in the ESG (Environmental, Social and Governance) area through the adoption of incentive parameters related to the achievement of the Group’s strategic guidelines on these issues, ensure the alignment between management and the interests of the shareholder and investors and facilitate the achievement of the challenging objectives defined for 2023, creating value and the prerequisites for the full execution of the Business Plan in the three-year period 2024-2026.

KPI as at 31 12 2023							
Indicators	31/12/2023	31/12/2022	31/12/2021	31/12/2020	31/12/2019	31/12/2018	31/12/2017
Headcount	16,737	17,020	21,244	21,432	22,040	23,129	23,463
<i>Operational location (%)</i>							
Central Functions*	31.9	32.8	36.2	36.0	36.0	36.0	33.7
Network**	68.1	67.2	63.8	64.0	64.0	64.0	66.3
<i>Professional/ occupational (%)</i>							
Management	1.0	1.1	1.1	1.2	1.3	1.2	1.2
Middle Management	36.4	35.8	38.7	38.7	38.8	39.1	38.9
Professionals	62.6	63.1	60.2	60.1	59.9	59.7	59.9
Other indicators							
Training per capita (Hours)***	44	44	44	47.2	48.9	45.9	41.9
Female Staff (%)	53.6	53.3	51.7	51.4	50.8	50.0	49.7
Female executives (%)	19.5	19.2	16.5	15.7	14.2	10.3	8.2
*Head Office, local control units of Banca MPS and other companies, of which 2,031 resources based in Siena.							
** Branches and Specialised Centres of Banca MPS.							
*** Banca MPS, MPSFid, Widiba.							

¹⁹ See “Report on the remuneration policy and on compensation paid” in the Corporate Governance section on the Parent Company’s corporate website.



Headcount changes

As at 31 December 2023, the Group had a total of 16,737 active employees,²⁰ down 283 compared to 31 December 2022. During 2023, there were:

- 84 new hires of which 6 reinstatements in implementation of court-rulings. Of the remaining 78, 40 were employed to strengthen the Sales and Distribution Network and 15 to increase the workforce of the Control Functions through the entry of young resources. In particular, 18 new hires, out of the above mentioned 84, were made to comply with the commitments provided for in the Labour exchange for protected categories law;
- 359 terminations, of which 40 were incentivized early retirements and recourse to the sector solidarity fund, as extensions of the measures activated at the end of 2022;
- a negative balance of 8 resources due to other changes in the Group's consolidation scope, mainly to be attributed to personnel seconded outside the Group during the year.

The distribution at the end of 2023 of the workforce stood at 68.1% in front-office units (Branches and Specialised Centres) and 31.9% for Head Office units and Regional Departments.

Personnel management initiatives

Personnel management policies continued to support and consolidate reorganisation projects in addition to the mergers of Group companies, in line with the objectives of the new 2022-2026 Business Plan *"A Clear and Simple Commercial Bank"*, through mobility plans (professional and regional) with a view to development opportunities for employees and according to logics of transparency, participation and inclusion.

More specifically, the corporate programme of people development (MPS Sviluppa) is designed to meet different corporate needs in terms of professional requirements and responds to the aim of increasing the skills, professional capabilities, motivation and engagement of individuals. The programme is guided by the principles of equal opportunities and accessibility of training and development activities, consistent with the provisions of the Code of Ethics and the document "Rules on Inclusion" issued in July 2022.

On 7 August 2023, an agreement on Professional Development was executed with the trade unions. In this agreement, it was stipulated that the company's professional development model is structured in a functional process for planning the coverage of corporate roles, in a balanced relationship based on the evolution of professional profiles, the continuous growth of professionalism and the improvement of the skills applied, with the aim of constantly developing and maintaining internal expertise.

In order to meet the expertise requirements dictated by the organisational transformation in progress and by internal professional mobility as a result of the exits in compliance with the solidarity fund, the "Reskilling" process was consolidated and re-proposed through specific campaigns dedicated to the network and central units involving a total of about 2,000 people. This structured and scalable process aims to actively manage the retraining towards new roles, through the enhancement of the skills and experience possessed by the people involved and the definition of personalised training courses. Each course is tailored according to the target role in terms of skills, experience and training already received by the resources.

Among the main development opportunities are the development paths - set up with a view to supporting and developing the managerial population newly appointed to roles of responsibility in the network and central units - which, after an assessment or feedback questionnaire, define individual digital coaching action plans aimed at consolidating managerial skills. Other important initiatives aimed at enhancing human capital are:

- GEA (Growing Employees Accountability) professional career paths towards the role of branch manager: at the end of October, in continuity with previous years, the new campaign for the selection of participants in the career paths of branch manager was launched. People will be guided towards their new role through experimental steps, targeted training/development activities and checkpoints on the acquisition of skills;
- horizontal competence-building process for network and central units, provided for in the agreement of 7 August 2023, which will be implemented in 2024.

In order to best support the achievement of the Business Plan objectives, a review of the evaluation system began in 2023 and will be fully operational in 2024 with the aim of increasing its effectiveness for all the players involved.

²⁰ Instead, personnel on the payroll stood at 16,931 resources.



The review, while maintaining elements of continuity with the previous system, will broaden the overall view of the person being evaluated, with the integration into the evaluation factors of role-specific activities and behaviours consistent with the Group's model of soft skills that stems from the corporate Code of Ethics.

The process will also support the professional development of the resources to be "enhanced" through horizontal or vertical development indications proposed by the direct manager and confirmed by the management and business system.

The Welfare plays a central role in Level II Bargaining and, for the most important institutions, was also substantially extended to the resources participating in the solidarity fund of the sector and for the entire period of permanence therein. Thanks also to the constant dialogue within the context of the relevant Joint Committee, welfare has consolidated its structure in a complex of constantly evolving contractual institutions, differentiated according to the requirements - traditional and new - of employees in the area of:

- supplementary pensions, in particular company pension funds that can also be extended to dependants, and insurance cover in the event of premature death and permanent disability;
- income support, concerning the recruitment of the deceased employee's family member, meal vouchers, subsidised conditions on loans also through specific initiatives aimed at limiting the impact of interest rate changes, contribution to the Cassa Mutua [Health Insurance] (a central point of reference for employees) for the supplementary economic action plan;
- health, with regard to sickness and accident insurance cover, with increased coverage in a preventive logic;
- internal solidarity, with reference to MPSolidale, a fund financed by donations of hours and days by employees to meet serious and proven personal and family needs, with priority given to childcare;
- new wellbeing and culture and leisure programmes, assessed on a case-by-case basis according to needs, such as an access to sports programme, a foreign language study programme and a digital corporate library with ebook lending;
- work-life balance, with particular emphasis on the Group's ongoing efforts to increase work flexibility, such as agile working, driven by an evolving approach.

In 2023, the evolution and strategic importance that the issues of Diversity & Inclusion represent for the Group has led to the definition of a specific organisational responsibility and a dedicated corporate function with the aim of developing a culture of diversity and inclusion to view diversity as a value and an opportunity. In line with the Business Plan 2022-2026, the Pre-certification of Gender Equality was carried out and, in December 2023, the Group was awarded Gender Equality Certification according to the UNI Reference Practice PdR 125:2022 which, as set out in the NRRP and in Law no. 162/2021, attests, through accredited certification authorities, the compliance of the business organisation with the principles of gender equality. In order to ensure the monitoring of activities and areas relating to gender equality, in accordance with the UNI Reference Practice (*Prassi di riferimento*) PdR 125:2022, a Gender Equality Management System was set up, with a specific focus on the communication plan, on the training plan, on the internal audit system, on the management of non-compliance and on the management of a Strategic Plan on Gender Equality, approved by a specific Steering Committee and updated periodically.

An inclusive culture is valued by the Group, it develops flexibility and innovative skills, increases the motivation of people in the company and interest in new generations, with a consequent positive impact for the business. These principles, in line with the additions to the Code of Ethics, and specified in the document "Rules on inclusion", are communicated to all stakeholders in the "Gender Equality Policy". This document, available on the Group's website, defines commitments and emphasises the value of diversity and inclusion, equity and equality that the Company aims to pursue in all phases of the business life of each person, in its organisational and operational aspects, in internal and external communication and in its relationship with the local community. In line with what was stated in the Gender Equality Policy, the document "Rules on preventing and combating gender harassment in the workplace" was published. The document states "zero" tolerance towards violence and harassment in the workplace.

To disseminate the principles of the document "Rules on Inclusion" and the "Gender Equality Policy", further editions of "Plural Management", the training workshop aimed at all resource managers, were published; on gender-specific issues, "Growth Together" was launched, an upgrade of the previous "Women Leadership Program", a course aimed at women holding positions of responsibility; the collaboration with "Valore D" continued with participation in intercompany training courses and the survey "Beyond generations, experiences, work relations": an initiative to identify the generations present in the company, highlight the values and needs of people and explore relations among colleagues of different ages. The Parent Company was also confirmed as a supporter of the project "D&I in Finance", aimed at consolidating the actions undertaken by the banking and financial industry and other business entities in favour of inclusion, equity and valuing diversity. The issue of Diverse Abilities was addressed



with special analyses and continuing participation in the Disability Lab (an inter-company laboratory created as a natural continuation of the “Disability and Work” research project in collaboration with Fondazione Istud).

The activities are subject to continuous discussion within the Equal Opportunities Commission.

The initiatives of MPS Orienta, the programme that encompasses the activities that the Parent Company devotes to career guidance, the development of soft skills, financial education and, in general, relations with schools and universities. The aim of the programme is to promote employer branding, strengthen the link between education and the world of work, support the country’s economic and social development, contribute to sustainable growth strategies and strengthen relations with customers and the area in which the Group operates. The main initiatives target:

- developing partnerships with universities and specialisation schools, including internships, co-teaching and targeted cooperation activities, participation in career guidance events, and the preparation of degree theses in the company;
- promoting training, guidance and financial education projects with primary and secondary schools;
- designing and implementing financial education and career guidance activities to be promoted both internally and externally, through workshops dedicated to specific targets.

The management plans were based on the objectives dictated by the 2022-2026 Business Plan, in particular:

- the mergers of MPS Leasing & Factoring and MPS Capital Services have led to the adjustment of the central units through the correct allocation of activities and resources, and the subsequent strengthening of commercial roles through the redeployments of resources resulting from the aforementioned extraordinary transactions;
- the coverage of network activities, also in the planned strengthening of commercial roles, was guaranteed by upgrade processes and the redeployment of resources from the head office units;
- the managerial continuity plans, in support of the organisation manoeuvre, were focused on the qualitative and quantitative coverage of business of the merged companies through upskilling and reskilling programmes, with opportunities for professional growth and with minimal impacts in terms of regional mobility;
- the control functions, subject to particular attention, were supported in the continuation of the specific reintegration plan.

The ordinary activities of human capital management and the various projects continue to maintain the objective of pursuing the best allocation of resources and maximising engagement, accompanying execution with the use of all internal communication channels as well as with a programme of individual interviews to discuss the main drivers and expected benefits.

Internal communication supports the sharing of Group strategies in line with the 2022-2026 Business Plan, protects the corporate identity and disseminates its values. The corporate functions share with internal communication the information and involvement needs of colleagues in order to translate them into editorial plans based on the integrated use of internal channels in connection with recurring or extraordinary activities.

The year 2023 was characterised by the evolution of the training platform (MPS Academy) with the integration of analysis tools (*Skill gap analysis* questionnaires) that consolidate the application of the 3D Approach training framework. These tools, combined with the use of training courses, allow for “tailor-made” training programmes, i.e. customisation of enrolments in the courses by role with the same total duration.

During 2023, approximately 725,701 hours of training were carried out at Group level, equal to 44 hours for each employee. The activity involved about 99% of personnel and is subject of joint follow-up with the trade unions also within the Joint Training Body.

In order to promote the spread of risk culture and to highlight the value created by training initiatives in terms of covering processes and monitoring business risks, a single training framework has been implemented for some years enabling each training activity to be associated with one or more business processes/risks from the design phase. This framework ensures “personalised” training in high-risk areas (e.g. Credit, Anti-Money Laundering and financial crimes, Customer Protection and Transparency, Data Governance and Cyber Security) conducted following a Risk Assessment and Skills Gap Analysis exercise that determines the exposure to risk (known as the “risk rating”) for each company role and the consequent specific training requirement, directing training on the areas at greatest risk and on the most exposed company profiles and which therefore require greater knowledge.



The new training framework was applied in Credit area (involving over 4,300 network resources), in Anti-money Laundering area (for over 12,000 resources) and in Customer Protection and Transparency area (over 10,000 resources).

Similarly, the training model was extended to Data Risk and Cyber security area using the Risk assessment and Skill Gap Analysis exercise on Cybersecurity, Data Governance, Data Protection and Administrative Responsibility 231/01, which involved the resources of central units (over 3,900) with a successful ratio of 91%. Tailor made training will follow according to the gaps detected.

In addition, enhancing the potential of the 3D model and continuing with its improvement, the 231/01 training system was enforced, enhancing risk awareness and control: 231 MPS Training Approach, with the updating of 231/01 risk relevance levels on business process and training topics. The interconnection of the 231 model with the multidimensional, risk-based Training Framework made it possible to identify topics relevant to 231/01 model.

In continuity with what was already started in previous years, multimedia training on risk culture continued in 2023, offered to all personnel, through a number of courses held monthly on topics concerning different risk areas: from ESG sustainability to operational, anti-money laundering and privacy risks.

In the Plan prepared in accordance with the Bank of Italy rules set out in the 40th update of Circular 285, in continuity with previous year, specialised training was provided for staff of Control unit to monitor compliance risk post Skill assessment (13 resources), for IT roles connected with updating or acquiring certifications (e.g. AIIA courses for Internal Auditors): 36 resources involved, cyber security courses for SWIFT operators for compliance with CSP (SWIFT Customer Security Programme) in compliance with the security requirements of International Standards (60 resources), courses provided by external certified bodies (e.g. ISACA) with the issue, in some case, of international certification (43 resources).

For programmes directed to key and strategic roles, a Board Induction event was held for all members of the BoD and the Board of Statutory Auditors on the topic of Cybersecurity.

Lastly, Health and Safety training was intensified, focusing on the provision of specific courses for emergency workers, HSE manager, workers' representative for health and safety (*Rappresentante dei Lavoratori per la Sicurezza, RLS*), trade union representation (*Rappresentanza Sindacale Aziendale, RSA*), achieving almost total training coverage.

2022-2026 Group Business Plan

The 2022-2026 Business Plan approved by the Board of Directors of the Parent Company on 22 June 2022 aims to strengthen BMPS in its capacity as a “simple commercial bank in the operation and interaction with customers”, with the support of the Group's distinctive factors such as BMPS' brand reputation and historical business, the expertise and motivation of its employees, and the Bank's historical ESG culture.

Status of implementation of the Plan at the date of preparation of this Report

In the fourth quarter of 2022, the share capital increase of EUR 2.5 bn was completed and, following the agreement with the trade unions, the Group's workforce was reduced by approximately 4,000 staff.

With a view to simplification of the Group structure, in December 2022 the Group Operating Consortium was merged into the Parent Company and a new “Information Technology” office was created, reporting to the Chief Operating Officer, to ensure greater efficiency in the design and implementation of IT systems. On 24 April and 29 May 2023, respectively, the mergers by incorporation of MPS Leasing & Factoring S.p.A. and MPS Capital Services Banca per le Imprese S.p.A. into Banca MPS were completed.

The Bank also improved its funding profile, reopening access to the senior preferred bond market with two issues, the first for EUR 750 mln and the second for EUR 500 mln, carried out in February and August 2023, respectively, in line with the objectives of the 2023 funding plan and in compliance with the MREL targets.

The strengthening of Banca MPS's performance and its capital level, together with the improvement in asset quality and new access to the debt market, led to rating agencies upgrading the Bank's rating.

At the end of the annual prudential review and assessment process conducted in 2023, the Bank received the final decision from the ECB regarding the capital requirements to be met on a consolidated basis from 1 January 2024. These requirements are lower than those set for 2023 and are already largely met.



On 15 January 2024, the Parent Company's distribution network was optimised with the closure of no. 50 branches; therefore, the total number was reduced to 1,312 compared to 1,362 as at 31 December 2023.

Initiative aimed at fully enhancing Widiba's digital expertise in the Group, continued during 2023. The main projects in 2023 were mainly dedicated to improving the offering and the proprietary platform for financial advisors. In terms of economic targets, the 2023 result was significantly higher than expected, driven by revenue growth.

In terms of economic targets, the result for 2023 was significantly better than expected, thanks above all to the increase in revenues; the latter were driven by the interest margin, which in 2023 benefited from higher interest rates than those accounted for in the Plan scenario, largely offsetting the lower fee and commission income, recorded especially in the area of asset management. Operating expenses were also better than expected, due to higher exits through early retirement plan/access to the Solidarity Fund, and tight control of other administrative expenses. This made it possible to absorb the effects on personnel expenses resulting from the renewal of the bankers' national collective agreement and the impact of inflation. Despite the higher cost of credit (mainly impacted by the macroeconomic environment), exceeding the Plan's economic target for 2023 was further helped by the significant release of previous allocations, following the significant improvement in the risk profile of civil and criminal litigation related to financial disclosures in the period 2008-2015 (due to favourable rulings issued in the last quarter of 2023).

As a result of the economic trends described above, the profitability indicators (Cost income, ROE, ROTe, ROA) were all better than the Plan forecast.

ESG strategies

The integration of Sustainability factors into the Group's strategy in 2023 has taken significant steps towards achieving the objectives set by the 2022-26 Business Plan. In particular, most of the initiatives identified in the Sustainability Plan were implemented, thanks to a specific initiative, the "ESG Programme", aimed at perfecting the principles of sustainability according to the three environmental, social and governance ESG criteria, in the definition of the strategy, business model and policies pursued in carrying out its activities.

The objectives achieved are shown below, described in more detail in the 2023 Consolidated Non-Financial Statement:

- ESG objectives were added to the 2023 remuneration policies in order to determine variable remuneration;
- the ESG guidelines and strategies that the Group adopts with reference to credit, investment and funding ESG activities were formalised and outlined, aligning the relative responsibilities of the corporate functions;
- the policy on gender equality was formalised in line with the Code of Ethics, and draws inspiration from the document "Rules on Inclusion" for the realisation of an environment where equity, inclusion and plurality are transformed from principles into actions;
- Gender Equality Certification was obtained (Italian Law 162/2021), representing an important 2023 goal achieved by the Group in advance of the planning envisaged by the Business Plan. This certification attests, through accredited Bodies operating on the basis of the UNI/PdR 125:2022 Reference Practice, the compliance of the business organisation with the principles of gender equality;
- the document "Rules on preventing and combating gender harassment in the workplace" was formalised;
- the number of positions of responsibility held by women was increased, reaching 37.0% (ahead of the target of 35% set for 2023);
- decarbonisation objectives were defined on the first three high emission-intensity sectors, in line with commitments deriving from joining the Net Zero Banking Alliance (NZBA). More specifically:
 - the Power Generation sector showed a 77% reduction in financed emissions (scopes 1 and 2), starting from a base of 196 thousand tonnes of CO₂ equivalent;



- for the Oil & Gas sector, a 40% reduction in financed emissions (scopes 1, 2 and 3) was posted, starting from a base of 656 thousand tonnes of CO2 equivalent;
 - for the Iron & Steel sector, a 29% reduction in financed emissions (scopes 1 and 2) was posted, starting from a base of 1,067 thousand tonnes of CO2 equivalent.
- an overall strategy was defined for the decarbonisation of the credit portfolio broken down by sector type, with the expectation of implementing new partnerships and types of products and services to support customers. These actions were also associated with most exposures (in particular those at medium, high and very high risk) to ensure the correct management of transition risk;
- credit strategies were perfected with ESG logic, in order to support the definition of the strategic direction to be developed with the customer, taking into account the sustainability profile and the relative exposure to the risk arising from climate changes. Further development of the ESG questionnaire to better understand the ESG characteristics of the customer and the credit standard;
- the process of working alongside companies for the development of their business according to ESG sustainability objectives and in line with NRRP guidelines was implemented, offering a contribution to Italy's business fabric through a partnership with SACE New Green Deal and other specific initiatives;
- the "Mutuo Mio Immobili Green" ("My Green Mortgage") product was launched (intended for properties in APE energy classes A and B), an Advisor was appointed for the issue of the Green and Social Bond (GSS) and the definition of the ESG product framework began;
- ESG loans were disbursed for 17% of total medium and long-term loans granted during the year (exceeding the 10% intermediate target set for 2024). In addition to this, additional agreements were signed to support green projects with a focus on the Agri-green sector;
- ESG sustainability factors were added to the Mifid questionnaire (in line with regulatory provisions), in the controls on adequacy and in the information provided to end investors, about sustainability risks and the promotion of ESG factors in financial investment activities;
- the commercial offer was expanded with products whose characteristics are consistent with the regulatory definitions of sustainable product. In particular, at the end of 2023, 69.5% of the funds listed in the catalogue were ESG-rated (according to art. 8/9 SFDR) and 46.1% of the total fund stock was invested in ESG funds, ahead of the Plan targets of 30% by 2024 and 40% by 2026;
- the streamlining process relating to the use of fewer energy sources continued, with reference to the reduction of direct greenhouse gas emissions;
- scope 1 emissions were reduced by 70% versus the 2017 baseline (ahead of the 60% reduction target by 2026);
- the use of 100% renewable energy by the Group was confirmed;
- activities aimed at reducing the use of paper and related greenhouse gas emissions continued. An increase in the digitalisation of communications sent to customers has been achieved (reaching 53%, with the objective of reaching 55% by 2024) in addition to a level of 84% digitalisation towards the 90% target set for 2026;
- a percentage of 75% of ecological paper for external use and of 100% of recycled paper for internal use was reached;
- the home-to-work mobility plans of employees were updated, identifying specific actions to reduce emissions related to these commutes and in order to improve employee well-being;
- the extension of the unsolicited ESG rating assessments continued.

The process of strengthening sustainability governance and integrating ESG criteria into the strategy and management of ESG risks is demonstrated by the confirmation of the ISS ESG ratings and above all by the upgrade of the ESG ratings:



- Sustainalytics, for 2023, rates the Group in the medium range, assessing the Bank's ESG risk management at a particularly positive (strong) level;
- Moody's ESG promotes the Group to "Robust" for 2023, noting an improvement in performance in terms of corporate governance and business conduct;
- Standard Ethics, in early 2024 reported an improvement in Bank's short-term outlook from "Stable" to "Positive".

Credit strategies

On 20 February 2023, the Board of Directors approved the new credit strategies, developed within a geopolitical and macroeconomic context where the default risk was expected to increase due to the pressure on interest rates deriving by the restrictive monetary policies implemented to deal with inflation.

As a result, having to coexist with the objective of maintaining a high level of asset quality, the planned growth in lending has focused on commercial transactions with a view to "debt sustainability".

For businesses, lending policies have combined sector outlooks with incentive mechanisms for green lending, in order to mitigate transition risk. In addition to this, the ESG questionnaires were revised and, for companies with a higher risk profile, greater sensitivity was placed in the assessment of the forward-looking sustainability of debt.

With respect to private customers, strategies were integrated within acceptance algorithms which guarantee standardisation and make it possible to achieve higher process efficiency at the same level of effectiveness. These models were then strengthened by expanding them through the use of internal and external data so as to gradually increase digitalisation, productivity and operational efficiency rates. With regard to consumer credit, lending strategies have included greater use of ex-ante risk customers stratification to activate dynamic procedures and an increase in the automatic decision-making rate. In the first half of 2023, the Group has launched the green offer of the "Mutuo Mio Acquisto Abitazione" ("My Home Purchase Mortgage") product for the *Green Mortgage* market, and through which discounted spreads were applied for the purchase of properties in high energy classes (A and B) with respect to the standard product in the catalogue. In addition, on the Consumer Finance front, the catalogue was extended to include the consolidated product "Uniamo".

Due to the macroeconomic context the monitoring of credit strategies during the year showed a general slowdown in gross credit production and a default rate just above expectations, particularly for borrowers of floating-rate mortgages of the Private segment.

In order to mitigate emerging risks, in continuation of what was done in the first part of the year, internal scoring of the early warning system (EWS) was used, in order to submit to credit analysts, on a priority basis, reports referring to customers on which early warning signs of deterioration were noted ("Operational Credit Plans"). On the basis of this new score, the performance risk indicator was revised overall around the end of the year and integrated in early 2024, both in the systems and in the branch front-end.

Finally, as regards origination, the objective remains the retention of current market shares during the business plan time-frame through a continuous pricing reviews policy and through the partnerships with third-party operators to expand volumes.

Commercial strategy

Sales strategies in 2023, in continuity with the process already started, directed the business towards core areas to relaunch the Group's economic performance, confirming customer support, and towards a more sustainable development model.

In the Retail Banking area, the following initiatives were implemented in 2023:

- the focus on the acquisition of new customers, new assets and the recovery of deposits transferred to other institutions continued, through the offer of new deposit account lines (CID) with dedicated rates and through specific commercial initiatives (for active customers without current account or prospects), which, on some current account lines, provide for temporarily fee waivers as well as discounts on asset management products;
- the premium market (and in support of the above) the commercial targets Winback and Multi-banked Customers, which can also be extended to *customers recommended/selected* directly by the Commercial Network, were confirmed;



- the offer of mortgage loans to consumers was adjusted to reflect the increase in interest rates: offers reserved for new disbursements have been introduced, with an extension of the overall duration to 40 years and an extension, for priority customers, of loans guaranteed by the “Prima Casa” Fund in a 100% loan-to-value, fixed-rate version;
- activities for the development of relations through the synergy between the premium market and the small Business market continued with the aim of acquiring new customers (shareholders, legal representatives and/or owners of companies that are already customers) by providing qualified support in response to the personal and business needs of customers;
- initiatives were released for the rebalancing of portfolios that were out of alignment with certain efficiency parameters (adequacy and adherence in terms of composition and market risk), with the aim of improving the quality of the advisory approach to Premium customers;
- focus was placed on the financing segment (mortgages and loans), especially on Value customers, through targeted branch campaigns, training activities and network support, with regular exchanges on the monitoring and creation of new advertising media (Direct Email Marketing, ATM banners and E/C, videos for branch monitors and website updates);
- commercial actions were carried out mainly aimed at Value customers, with a proposal of insurance solutions for the protection of home and health (in particular “Mia Protezione” and “Formula Benessere” policies) with the launch of dedicated commercial campaigns and the use of advertising media;
- direct funding volumes of Private and Family Office customers were developed, also through the establishment of specific limits to support both liquidity retention and the acquisition of new assets;
- enhancement of the consumer finance business model continued, with the aim of encouraging an increase in the production of personal loans, maximising margins and perfecting the customer experience. In this regard, the approval/disbursement times have been improved and commercial policies have been adopted with a view to cross-selling and acquisition. The sale of the MPS Prestito Uniamo continued. This loan was launched in the second quarter of 2023 which makes it possible to combine current payables (of other personal loans in progress) in a single monthly instalment, with longer repayment times. Lastly, the customer’s user experience has been improved thanks to the introduction of the electronic signature for the subscription of the “Prestito Protetto” policy, sold in combination with the loan.

With regard to the digitalisation of processes and the development of platforms in 2023, the following should be noted:

- the remote digital signature service was promoted to encourage the online signing of documents and contracts (*remote collaboration*) through information campaigns to customers who do not yet use the service (Digital Banking pop-up);
- expansion of the scope of documents that can be signed remotely (Remote Collaboration) with the introduction of new banking forms;
- constant anti-fraud monitoring, through controls on the main transactions carried out online and the publication of targeted educational messages;
- the alignment with Italian Legislative Decree no. 31 of 10 March 2023 was completed, concerning the implementation of the European “Quick Fix” Directive on the digitalisation of communications to customers concerning the services of investments held by them;
- the *Digital Only* processes were digitised to reduce operational risks, eliminate paper and speed up front-end activities in all branches;
- the remote sale of Amex credit cards, through the publication of banners and pop-ups on Digital Banking, was promoted;
- an information campaign was launched on Digital Banking, aimed at increasing the number of CBILL payments on Digital Banking of the Banca MPS App and the ATMs, and at the same time at increasing the use of Self Banking tools;
- the gradual release to the Customers of the new Mobile Token authentication method for the use of the Banca MPS App was completed. The transmission of OTP (one time password) via SMS was replaced with OTP Mobile Token, subject to mandatory certification on customers’ smartphone.

The initiatives for 2023 in the Wealth Management area were aimed at:



- developing further business customers relationships, through the synergy between the private and the corporate market, with the aim of providing qualified support in response to customers' personal and business needs;
- developing direct funding volumes of private and family office customers, also through the establishment of specific limits to support both liquidity retention and the acquisition of new assets; in this context, the repricing of some durations of the Cid Fedeltà Flex product was carried out, in line with the increase in rates recorded in the market;
- systematically monitoring the Private and Family Office customers' financial portfolios through specific initiatives aimed at expanding the advisory service, increasing diversification and improving quality through more efficient investment solutions;
- providing customers with functional support for the management of generation-to-generation handover and business continuity, thanks in particular to fiduciary services, which allow effective management of the portfolio's transfers;
- consolidating the specialist training course for the private network (so-called *Private Academy* for the purpose of strengthening and increasing the skills of bankers and managers, through targeted courses in collaboration with certified entities and structures with high standing.

During 2023, with reference to Corporate Banking, some initiatives were undertaken aimed at:

- continuing support to the trade policy to relaunch our country's businesses, supporting development projects and local activities and economies, integrating environmental, social and governance (ESG) criteria within investment and lending policies and finally exploiting the potential of the NRRP. In particular in this area, having adhered to the ABI CDP Ministry of Tourism Agreement, the Parent Company has effectively promoted the Fondo Rotativo Imprese [Business Revolving Fund] to support businesses and development investments in tourism, whose branch (opened since March 2023) has allocated a limit of EUR 100 mln with the aim of encouraging energy requalification, environmental sustainability and digital innovation in the tourism sector;
- supporting companies' green projects thanks to the agreement, renewed in May 2023, between SACE and the Parent Company with a view to incentivising projects aimed at reducing environmental impacts. A total of EUR 625 mln was allocated (corresponding to SACE Guarantees of up to EUR 500 mln) used in 2023 and the first quarter of 2024. In order to support companies and finance projects in Italy aimed at facilitating the transition towards a lower environmental impact economy, SACE will intervene by issuing green guarantees at market conditions and counter-guaranteed by the State, for a share equal to 80% of the special-purpose loans disbursed by Banca MPS;
- responding to the needs of medium, small and very small companies, as well as family businesses operating in the agrifood sector, through the activities of the 15 Agrifood centres that have been launched as part of the "MPS Banca Verde AgriDOP" project;
- supporting the Italian agri-food sector through a memorandum of understanding executed with MASAF on 9 May 2023, which provided for a dedicated ceiling of EUR 1 bn expiring on 31 December 2026, to facilitate access to credit for the growth and development of the entire agri-food sector and to support NRRP-related supply chain projects.
- promoting the development of POS through an agreement with Nexi, effective until 30 June 2024, at exclusive conditions for both new and existing customers;
- carrying out specific training on the network for the launch of the new Nexi Soft POS payment service, in place since November 2023;
- enhancing the value of the new Business Protection policy, recently revised, reserved for professionals and businesses, with a special commercial campaign;
- developing synergies:
 - o between the Private and the Corporate market to meet the personal and business needs of customers;
 - o between the Corporate customers and the Corporate Investment Banking function with the aim of satisfying the complex needs of companies and guaranteeing their development through the use of specialised expertise;
- managing subsidised loans for internalisation and in relation to the Public Fund, Law 394/81, by complying with the SIMEST operating agreement (July 2023) referring to the banking system. These are loans aimed at Italian companies for pursuing growth and globalisation towards all foreign countries;
- supporting the operation carried out by the reconstruction sites in Central Italy by signing, on 22 June 2023, a Memorandum of understanding with the Extraordinary Commissioner for 2016 Earthquake



Repair and Reconstruction, with a ceiling of EUR 200 mln in credits linked to the use of the 110% “supersismabonus”. It follows that for the reconstruction of private buildings in the four regions affected by the earthquake seven years ago (Abruzzo, Lazio, Marche and Umbria), it will be possible to benefit (until 2025) from the earthquake contribution and also from the Superbonus, assisted by the assignment of a tax credit and a discount on the invoice;

- supporting the actions related to the *Superbonus* with the Memorandum of understanding signed on 6 December 2023 with the Municipality of L'Aquila and the Municipalities of the Seismic Crater, reserved for damaged properties in the areas affected by the earthquake of 6 April 2009. The agreement provides for a ceiling of EUR 35 mln and is intended for companies that will carry out works on buildings affected by the earthquake and not yet repaired; the agreement will remain in force until 30 November 2024.

The strategy of the **Large Corporate and Investment Banking Market** in 2023 continued to be based on supporting large companies in the country, through constant customer follow-up activities, providing various types of high value-added services and adequate assistance both in terms of funding and loans.

Development activities were carried out aimed at acquiring new relationships and reactivating relationships with companies that are already customers and no longer operational. All this with particular regard to the sectors deemed most attractive, less risky, and to companies most sensitive to energy conversion, to ESG sustainability criteria and committed to investments related to the National Recovery and Resilience Plan (NRRP).

The general and uncertain context of the economy, affected by the current geopolitical variables, however, has led to more careful assessments on companies, in order to prevent possible credit deterioration.

The main objective was to strengthen the partnership with all business customers, increasing the qualitative and quantitative “share of wallet”, by focusing more on commercial activities, always seeking to maximise synergies with the private and retail worlds, through structured operations (bond issues and project financing), securities operations and factoring. With this in mind, all positions were allocated to the Relationship Managers according to a territorial and load distribution logic and, in order to ensure better follow-up on the target customer base, a tailor-made offer was provided with the involvement of all the units of the Large Corporate and Investment Banking sales department and of the specialised units (factoring and foreign) included in the Corporate and Private department. Special attention was paid to the retail world, with special agreements restricted to the employees of the monitored companies.

As part of the provision of investment services, the product specialists of the *Marketing Sales & Coverage* unit (Large Corporate and Investment Banking sales department) continued to carry out the usual activity of channelling flows from institutional and corporate customers, providing support through:

- 1) institutional sales, for the trading of securities, repos and derivatives for the benefit of institutional customers (banks, asset management companies, insurance companies, etc.);
- 2) corporate sales, for the trading of hedging derivatives for corporate customers;
- 3) network coverage, for the origination of the entire range of Corporate & Investment Banking products managed by the Corporate Finance and Investment Banking unit.

With specific reference to the activity of Specialists for the Italian Treasury, the commercial focus in support of auctions and syndicated issues of the MEF continues, which, over the years, has contributed to the Bank's strong positioning in this business, compared to its major domestic and international competitors.

The structuring teams and the Global Markets specialists continued to search for solutions for investment products suited to market conditions: the level of interest rates made it possible to offer both the retail and private segments of the Group, competitive solutions in the bond segment, designed with the insurance partner Axa innovative; at the same time, business lines of structured issues, absent in previous years, were reopened and gained a good commercial success.

With reference to the activity of granting structured loans, the Group continued to support customers with tailor-made structured finance, acquisitions, projects, real estate and shipping finance transactions, and, as regards investment banking activities, with the arrangement and placement of new issues of bonds, or with the activity of financial advisor in the context of extraordinary finance transactions.

Funding strategy

As part of the Group's Liquidity and Funding Strategy, the profile of the maturities for the 2023-2025 three-year period is represented primarily by the TLTRO III auctions, to which the Parent Company had access until June 2021, for a total of EUR 29.5 bn. As at 31 December 2023, with regard to the maturities during the year, the total



of TLTRO III auctions stood at EUR 5.5 bn (EUR 19.5 bn as at 31 December 2022), in addition to two MRO and LTRO auctions for EUR 6 bn and EUR 1.5 bn, respectively, for a total amount of debt to the ECB at that date of EUR 13 bn.

In relation to bond issue activities, two placements were made for a total of EUR 1,250 bn. In detail, the Parent Company issued: (i) in February 2023, a senior preferred bond of EUR 750 mln maturing in March 2026 and callable in March 2025 and a coupon of 6.75%; (ii) in August 2023, a senior preferred bond of EUR 500 mln maturing in September 2027 and callable in September 2026 and a coupon of 6.75%.

In addition, in the two-year period 2024-2025 the other maturities are represented by institutional bonds, for a total of EUR 4.8 bn to be repaid, of which:

- EUR 3.1 bn in 2024 (EUR 2.3 bn in covered bonds and EUR 0.75 bn in senior unsecured bonds);
- EUR 1.75 bn in 2025 (EUR 1 bn in covered bonds and EUR 0.75 bn in senior unsecured bonds).

Moreover, in 2025, the call will be exercised on two Tier 2 subordinated securities issued in January and September 2020, for a nominal amount of EUR 400 mln and EUR 300 mln, respectively.

Lastly, also in the 2023-2025 three-year period, bilateral funding transactions are maturing for a total of EUR 0.5 bn. In February 2023, a bilateral funding operation for approx. EUR 0.2 bn, expired while the residual transaction amounting to EUR 0.25 bn as at 31 December 2023 (of which EUR 0.14 bn with eligible collateral) is due in February 2024.

Against the planned maturities, the Group's funding strategies aim to maintain liquidity indicators at adequate levels, broadly above regulatory limits, as well as guarantee - as concerns public bond issue plans in particular - the satisfaction of MREL requirements. These strategies are defined in accordance with the Risk Appetite Statement (RAS), their operational definition is represented by the annual Funding Plans.

Commitments connected to the 2022-2026 Business Plan

On 3 October 2022, the European Commission published a review of the commitments already set forth in the previous 2017-2021 Restructuring Plan. On the basis of what is set forth in that document, the Parent Company is required to meet the following commitments:

1. acquisition prohibition: the Bank may not acquire either companies or business units, without prejudice to certain possible exceptions for selected cases. With regard to the possible exceptions, please note that the Bank may carry out acquisitions: (i) in exceptional circumstances, with the approval of the Commission, if necessary to re-establish financial stability or ensure competition, as well as (ii) if the purchase price of the individual transaction and on a cumulative basis during the period is below certain defined thresholds;
2. prohibition against distribution of dividends: the Bank cannot distribute dividends, unless both the CET 1 ratio and the Total Capital Ratio are above the SREP guidance provided by the ECB by at least [50-100] basis points, provided that no prohibitions established by the ECB or the SRB are in place against the distribution of dividends;
3. advertising prohibition: the Bank cannot make use of the State aid measures or the State's equity investment in its share capital to promote the bank's products or its market positioning;
4. sustainable trade policy and prohibition against aggressive pricing policies: BMPS should not implement aggressive commercial strategies that would not have been implemented in the absence of State support;
5. remuneration of Bank employees and managers: the Parent Company will need to apply strict Executive managers remuneration policies, and the remuneration of any employee cannot exceed 10 times the average remuneration of the Bank's employees. Without prejudice to what is set forth above, the Bank may be exempted from this requirement for a limited number of managers of key functions provided that the commitment pursuant to no. 12 below concerning the State equity investment is met and the additional remuneration is variable and aligned with the EBA Guidelines, on the basis of Directive 2013/36/EU;
6. number of branches: the number of Bank branches may not exceed [1,350-1,370] by the end of 2022, [1,300-1,350] by the end of 2023 and 1,258 by the end of 2024;
7. number of employees: the number of Bank employees may not exceed [20,000-21,100] by the end of 2022, [18,000-20,000] by the end of 2023 and 17,634 by the end of 2024;
8. *Cost/income ratio*: the Bank's *cost / income ratio* may not exceed the higher between the *average cost / income ratio* reported over time by the EBA for significant Italian credit institutions included in the *Risk Dashboard* sample and the following objectives: [70-80]% in 2022 (with a tolerance margin of [200-250] basis points), [60-70]% in 2023 (with a tolerance margin of [150-200] basis points) and 60% in 2024 (with a tolerance margin of [100-150] basis points);



9. Operating costs: operating costs (personnel expenses, other administrative expenses, depreciation and amortisation) may not exceed, with a tolerance margin of [0-5] percentage points, EUR [2,000-2,500] mln in 2022, EUR [1,500-2,000] mln in 2023 and EUR 1,872 mln in 2024;
10. Total asset target: the Bank's total assets should not exceed EUR [140-150] bn;
11. Loan to deposit ratio: the ratio between the bank's net loans and deposits should not exceed 87% by the end of 2024, with a tolerance margin of [200-250] basis points;
12. State divestment: the Italian Republic should transfer its equity investment in the Bank by a defined date and must make all reasonable efforts to transfer its equity investment before that deadline. Furthermore, the State will need to sell the shares acquired in the context of the 2017 precautionary recapitalisation. If the State's equity investment is transferred by means of a merger, only commitments no. 6, 15 and 22 will remain in force until a predefined date. In all other cases of disposal of the State equity investment, the following commitments will remain in force until a predefined date: nos. 2, 3, 4, 6, 7, 8, 13, 14, 15, 16, 17, 18, 20, 21 and 22;
13. Deposit price: BMPS will need to continue to price deposits for which agreements have been entered into or renewed after the date of adoption of the Commission's decision so as to maintain the rate in line with that of the Italian banking industry average, as reported by the Bank of Italy, with a tolerance margin of [0-10] basis points. Furthermore, the Bank will need to continue to price its credit products provided after the date of the decision at a level no lower than the market average for products with similar characteristics;
14. MP Banque: the Bank will need to continue with the process of discontinuing its operations on the basis of a defined timetable, within which its total assets should be [75-85]% lower than the volume of its total assets as at 31 December 2017, when they amounted to EUR 1,231 mln. In addition, MP Banque may not carry out activities not required for the process of discontinuing its current operations or new activities;
15. Leasing portfolio: the Group will need to continue to reduce the leasing portfolio, which must result in a reduction in assets of EUR [0-5] bn compared to 31 December 2021 equal to EUR 3,341 bn;
16. Non-performing loans: the Group should not exceed the higher between a gross NPL ratio of 4%, with a tolerance margin of [25-75] basis points, and the average NPL ratio reported over time by the EBA for significant Italian credit institutions included in the Risk Dashboard sample;
17. Real estate disposals: the Group will need to dispose of real estate for an amount of EUR 100 mln within a predefined period;
18. Disposal of non-strategic equity investments: the Parent Company will need to dispose of its equity investments in Visa, Bancomat, Veneto Sviluppo, MPS Tenimenti Poggio Bonelli e Chigi Saracini S.p.A. and Immobiliare Novoli S.p.A. by 31 December 2024 or, alternatively, must dispose of its equity investment in the Bank of Italy.
19. Closure of foreign branches: the Parent Company will need to close the Shanghai branch by the end of 2024;
20. Separate management of the equity investment of the Italian Republic in banks under public ownership: the Italian Republic undertakes to guarantee that every bank owned by the State will remain a separate economic unit with independent decision-making powers pursuant to EC Regulation 139/2004 on the control of concentrations between undertakings and the Commission Consolidated Jurisdictional Notice under the aforementioned Regulation (EC) No. 139/2004. In particular, the Italian Republic undertakes to ensure that: (i) all information that is confidential, sensitive from the commercial perspective or personal provided to government bodies shall be processed accordingly and will not be transmitted to other banks and investee companies of the Italian Republic; (ii) Italy will manage and maintain its equity investment in the Bank separately from the management of its equity investments in any other investee bank; (iii) the exercise of any right whatsoever held by Italy and the management of Italy's equity investments in any bank shall take place on a commercial basis and shall not significantly impede, limit, distort or reduce or hinder effective competition. Any disposal of Italy's equity investment must be carried out within a transparent, public and competitive process;
21. Confirmation of several 2017 commitments: the Bank should not violate any commitment adopted and will continue to respect internal policies and behaviors that it has adopted in order to meet commitments 12 (a)-(j), 13 and 22 of Commission decision C(2017)4690;
22. Monitoring trustee: full respect for the commitments will be monitored by a Monitoring Trustee independent of the Italian Republic that has no conflicts of interest.

In general, the Group complies with most of the commitments undertaken and has started the activities necessary to achieve all the targets assigned.

With regard to the commitment on the sale of properties (# 17), the process of collecting offers was extended, in order to improve the economic condition, beyond the assigned deadline.



In relation to the commitment on the number of branches (# 6), it should be noted that in January 2024, the process of closing of 50 branches was completed; therefore, as at 31 January 2024 the number of branches was down to 1,312 compared to no. 1,362 as at 31 December 2023.

With reference to the commitment of the Italian Republic to sell its stake in the Bank's share capital, it should be noted that, on 20 November 2023, the Ministry of Economy and Finance announced that it had successfully completed the sale of a number of ordinary shares of Banca Monte dei Paschi di Siena S.p.A., equal to 25% of the share capital through an *Accelerated Book Building (ABB)* reserved for Italian and foreign institutional investors. Following this transaction, the equity investment held by the MEF in BMPS fell from 64.23% to 39.23% of the share capital.



Income statement and balance sheet reclassification principles

The balance sheet and income statement are shown below in reclassified form according to management criteria in order to provide an indication of the Group's general performance based on economic and financial information that can be quickly and easily determined.

A disclosure is provided below on the aggregations and main reclassifications systematically performed with respect to the financial statements established by Circular no. 262/05, in compliance with the requirements laid out by Consob in communication no. 6064293 of 28 July 2006.

Starting from 1 January 2023, the insurance associates AXA MPS Assicurazioni Danni S.p.A. and AXA MPS Assicurazioni Vita S.p.A. simultaneously adopted for the first time the new accounting standard IFRS 17 "Insurance contracts", which came into force on 1 January 2023, and IFRS 9 "Financial instruments". The transition date is the beginning of the financial year immediately prior to that of first application (i.e. 1 January 2022).

Income statement and balance sheet figures at 31 December 2022, relating to the value of investees, recognised in the financial statements of the MPS Group using the synthetic equity method, were restated compared to those published at the related reporting date, to guarantee a like-for-like comparison. In addition, note that the balance sheet and income statement data as at 31 March 2023 and 30 September 2023, prepared by the insurance associates, were estimated using proxies or simplified calculation models, given the higher cost of accounting processes compared to measurements under the versions of IFRS 4 and IAS 39 previously in force.

It should also be noted that, starting from the first quarter of 2023, the following reclassifications were no longer carried out due to the low materiality of the items impacted in the first case and a more precise and accurate analysis of the performance in the second case:

- the economic effects of the Purchase Price Allocation (PPA) of past business combinations, which impacted the items "Net interest income", "Net value adjustments on property, plant and equipment and intangible assets" and "Income taxes for the year", are no longer recognised in the specific item (PPA) but remain in the economic items concerned;
- Rental income, previously reclassified to the item "Net value adjustments on property, plant and equipment and intangible assets", remain in the item "Other operating income/expenses".

The comparative periods were restated in order to allow a homogeneous comparison.

Income statement data

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

- The item "**Net interest income**" was cleared of the portion relative to customer repayments of EUR -0.1 mln, for which provisions were made in the item "Other net provisions for risks and charges".
- The item "**Net fee and commission income**" includes the balance of financial statement item 40 "Fee and commission income", which was cleared of the portion of reimbursements to customers referring to previous years (EUR +3.7 mln), recognised under item "Other net provisions for risks and charges" and the balance of item 50 "Fee and commission expense".
- Item "**Dividends, similar income and gains (losses) on investments**" incorporates item 70 "Dividends and similar income" and the relevant portion of profits from investments in the associate AXA, equivalent to EUR 86.6 mln, included in item 250 "Gains (losses) on investments". The aggregate is shown net of the dividends earned on equity securities other than equity investments (EUR 6.0 mln), reclassified in item "Net profit from trading, fair value measurement of assets/liabilities and gains from disposals/repurchases".
- The item "**Net profit (loss) from trading, the fair value measurement of assets/liabilities and Net gains (losses) on disposals/repurchases**" includes the values of items 80 "Net profit (loss) from trading", 100 "Gains/(losses) on disposal/repurchase" after deducting the contribution of loans to customers (EUR -0.1 mln) and 110 "Net profit (loss) from financial assets and liabilities measured at fair value through profit or loss", net of the contribution from loans to customers (EUR -0.5 mln) and securities deriving from sale/securitisation transactions of non-performing loans (EUR +10.0 mln) posted to the reclassified item "Cost of customer credit".²¹ In addition, the aggregate incorporates dividends earned on equity securities other than equity investments (EUR +6.0 mln).

²¹ Starting from December 2021, the economic effects relating to securities deriving from multi-originator sales of non-performing loan portfolios associated with the type of the assignment to (i) a mutual investment fund with allocation of the corresponding shares to the



- Item **“Net profit from hedging”** includes financial statement item 90 “Net profit from hedging”.
- The item **“Other operating income/expenses”** includes the balance of item 230 “Other operating expenses/income” net of:
 - stamp duty and other expenses recovered from customers, which are now under the reclassified item “Other administrative expenses” (EUR 197.1 mln);
 - recovery of training expenses, reclassified as decreases in “Personnel expenses” (EUR 4.2 mln) and “Other administrative expenses” (EUR 1.3 mln).
- The item **“Personnel expenses”** includes the balance of item 190a “Personnel expenses” from which costs of EUR 8.2 mln were excluded, reclassified under “Restructuring/ one-off costs”. The item also incorporates the recovery of training costs (EUR 4.2 mln) recognised in the financial statements under item 230 “Other operating expenses/income”.
- Item **“Other administrative expenses”** includes the balance of financial statement item 190b “Other administrative expenses”, reduced by the following cost items:
 - charges, amounting to EUR 133.7 mln, introduced for banks under the single resolution fund (SRF) and deposit protection mechanisms (Deposit Guarantee Schemes, DGS), attributed to the reclassified item “Risks and charges associated to SRF, DGS and similar schemes”;
 - DTA fee, convertible into tax credit, for an amount of EUR 62.9 mln posted to the reclassified item “DTA fee”;
 - charges of EUR 12.4 mln, relating to initiatives also aimed at complying with the commitments undertaken with DG Comp, stated under reclassified item “Restructuring costs/One-off costs”;
 - charges, amounting to EUR 2.2 mln, referring to the branch closures envisaged in the Business Plan, recognised under the reclassified item “Restructuring costs/One-off costs”.

The item also incorporates the following amounts, recognised in the financial statements under item 230 “Other operating expenses/income”:

- stamp duty and other expenses recovered from customers (EUR 197.1 mln);
- recovery of training expenses (EUR 1.3 mln).
- Item **“Net value adjustments to property, plant and equipment and intangible assets”** includes the values of the financial statement items 210 “Net value adjustments to/recoveries on property, plant and equipment” and 220 “Net value adjustments to/ recoveries on intangible assets”.
- Item **“Cost of customer credit”** includes the income statement components relating to loans to customers of items 100a “Gains/losses on disposal or repurchase of financial assets measured at amortised cost” (EUR -0.1 mln), 110b “Net profit (loss) on financial assets and liabilities mandatorily measured at fair value” (EUR -0.5 mln), 130a “Net impairment (losses)/reversals for credit risk on financial assets measured at amortised cost” (EUR -427.5 mln), 140 “Modification Gains/losses” (EUR -6.8 mln) and 200a “Net provisions for risks and charges - commitments and guarantees issued” (EUR -15.4 mln). The item also includes the income statement components relating to securities deriving from the transfer/securitisation of non-performing loans recognised in item 110b “Net profit (loss) of other financial assets mandatorily measured at fair value” (EUR +10.0 mln).
- The item **“Net impairment (losses)/reversals on securities and loans to banks”** includes the portion relating to securities (EUR -3.9 mln) and loans to banks (EUR +0.2 mln) of item 130a “Net impairment (losses)/reversals for credit risk of financial assets measured at amortised cost” and item 130b “Net impairment (losses)/reversals for credit risk of financial assets measured at fair value through other comprehensive income”.
- Item **“Net provisions for risks and charges”** includes the balance of financial statement item 200 “Net provisions for risks and charges”, reduced by component relative to loans to customers of item 200a “Net provisions for risks and charges - commitments and guarantees given” (EUR -15.4 mln), which was included in the specific item “Cost of customer credit”. The item also includes the reimbursements to customers relating to past years recognised in the financial statements under “Net interest income” for EUR -0.1 mln and “Fee and commission income” for EUR +3.7 mln.
- Item **“Other gains (losses) on equity investments”** includes the balance of item 250 “Gains (losses) on investments”, cleared of EUR 86.6 mln as the portion of profit of the insurance associates, reclassified under “Dividends, similar income and gains (losses) on investments”.
- Item **“Restructuring costs/One-off costs”** includes the following amounts:

transferring intermediaries or to (ii) a securitisation vehicle pursuant to Law 130/99 with the simultaneous subscription of the ABS securities by the assignor banks, and accounted for in item 110 “Net profit (loss) from other financial assets and liabilities measured at fair value through profit or loss”, were reclassified to item “Cost of customer credit”.



- costs for EUR 8.2 mln relating to exits through the early retirement plan or access to the Solidarity Fund accounted for in the financial statements in item 190a “Personnel expenses”;
- charges of EUR 12.4 mln, relating to project initiatives, also aimed at complying with the commitments undertaken with DG Comp, accounted for in the financial statements under item 190b “Other administrative expenses”.
- charges of EUR 2.2 mln, referring to branch closures envisaged in the Business Plan and accounted for in the financial statements under item 190b “Other administrative expenses”.
- Item **“Risks and charges associated with SRF, DGS and similar schemes”** includes charges related to contributions to deposit-guarantee schemes and resolution mechanisms, amounting to EUR 133.7 mln, posted in the financial statements under item 190b “Other administrative expenses”.
- Item **“DTA fee”** includes the expenses related to the fees paid on DTAs that can be converted into tax credit as set forth in art. 11 of Italian Law Decree no. 59 of 3 May 2016, converted into Italian Law no. 119 of 30 June 2016, recognised in the financial statements under item 190b “Other administrative expenses”, for EUR 62.9 mln.
- Item **“Net gains (losses) on property, plant and equipment and intangible assets measured at fair value”** includes the balance of financial statement item 260 “Net gains (losses) on property, plant and equipment and intangible assets measured at fair value”.
- Item **“Gains (losses) on disposal of investments”** includes the balance of financial statement item 280 “Gains (losses) on disposal of investments”.
- Item **“Income taxes for the year”** includes the balance of item 300 “Income taxes for the year from current operations”.

Balance sheet data

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

- Asset item **“Loans to central banks”** includes the portion relating to operations with central banks of item 40 “Financial assets measured at amortised cost”.
- The asset item **“Loans to banks”** includes the portion relating to loans to banks of financial statement items 40 “Financial assets measured at amortised cost”, item 20 “Financial assets measured at fair value through profit or loss” and item 120 “Non-current assets held for sale and disposal groups”.
- Asset item **“Loans to customers”** includes the portion relating to loans to customers of financial statement items 20 “Financial assets measured at fair value through profit or loss”, 40 “Financial assets measured at amortised cost” and 120 “Non-current assets held for sale and disposal groups”.
- Asset item **“Securities assets”** includes the portion relating to securities of item 20 “Financial assets measured at fair value through profit or loss”, item 30 “Financial assets measured at fair value through other comprehensive income”, item 40 “Financial assets measured at amortised cost” and item 120 “Non-current assets held for sale and disposal groups”.
- The asset item **“Derivatives”** includes the portion relating to derivatives of items 20 “Financial assets measured at fair value through profit or loss” and 50 “Hedging derivatives”.
- Asset item **“Equity investments”** includes item 70 “Equity Investments” and the portion related to investments in item 120 “Non-current assets held for sale and disposal groups”.
- Asset item **“Property, plant and equipment and intangible assets”** includes item 90 “Property, plant and equipment”, item 100 “Intangible assets” and the amounts related to property, plant and equipment and intangible assets in item 120 “Non-current assets held for sale and disposal groups”.
- Asset item **“Other assets”**, includes item 60 “Change in value of macro-hedged financial assets”, item 130 “Other assets”, and the amounts in item 120 “Non-current assets held for sale and disposal groups” not included in the previous items.
- The liability item **“Due to customers”**, includes financial statement item 10b “Financial liabilities measured at amortised cost – due to customers” and the component relating to customer securities of financial statement item 10c “Financial liabilities measured at amortised cost - Debt securities issued”.
- Liability item **“Securities issued”** includes item 10c “Financial liabilities measured at amortised cost - Debt securities issued”, excluding the component relating to customer securities, and item 30 “Financial liabilities designated at fair value”.



- Liability item **“Due to Central Banks”** includes the portion of item 10a “Financial liabilities measured at amortised cost – Due to banks” relating to operations with central banks.
- Liability item **“Due to banks”** includes the portion of item 10a “Financial liabilities measured at amortised cost – Due to banks” relating to operations with banks (excluding central banks).
- Liability item **“On-balance-sheet financial liabilities held for trading”** includes the portion of item 20 “Financial liabilities held for trading” net of the amounts relating to derivatives for trading.
- Liability item **“Derivatives”** includes item 40 “Hedging derivatives” and the portion related to derivatives in item 20 “Financial liabilities held for trading”.
- Liability item **“Provision for specific use”** includes item 90 “Employee severance pay” and item 100 “Provisions for risks and charges”.
- Liability item **“Other liabilities”** includes items 50 “Change in value of macro-hedged financial liabilities”, 70 “Liabilities associated with disposal groups” and 80 “Other liabilities”.

Liability item **“Group Net Equity”** includes item 120 “Valuation reserves”, item 130 “Redeemable shares”, item 150 “Reserves”, item 170 “Share capital”, item 180 “Treasury shares” and item 200 “Profit (Loss) for the year”.



Reclassified income statement

Reclassified Consolidated Income Statement				
MONTEPASCHI GROUP	31 12 2023	31 12 2022*	Change	
			Abs.	%
Net interest income	2,292.1	1,535.6	756.5	49.3%
Net fee and commission income	1,321.9	1,364.6	(42.7)	-3.1%
Income from banking activities	3,613.9	2,900.3	713.6	24.6%
Dividends, similar income and gains (losses) on investments	107.1	111.6	(4.5)	-4.0%
Net profit (loss) from trading, the fair value measurement of assets/liabilities and Net gains (losses) on disposals/repurchases	67.3	74.2	(6.9)	-9.3%
Net profit (loss) from hedging	(4.4)	6.2	(10.6)	n.m.
Other operating income (expenses)	12.8	27.5	(14.7)	-53.5%
Total Revenues	3,796.8	3,119.8	677.0	21.7%
Administrative expenses:	(1,667.1)	(1,920.6)	253.5	-13.2%
a) personnel expenses	(1,179.6)	(1,393.5)	213.9	-15.3%
b) other administrative expenses	(487.5)	(527.1)	39.6	-7.5%
Net value adjustments to property, plant and equipment and intangible assets	(175.7)	(187.5)	11.8	-6.3%
Operating expenses	(1,842.8)	(2,108.1)	265.3	-12.6%
Pre-Provision Operating Profit	1,954.1	1,011.6	942.5	93.2%
Cost of customer credit	(440.3)	(416.9)	(23.4)	5.6%
Net impairment (losses)/reversals on securities and loans to banks	(3.2)	(1.1)	(2.1)	n.m.
Net operating income	1,510.6	593.6	917.0	n.m.
Net provisions for risks and charges	471.2	2.0	469.2	n.m.
Other gains (losses) on equity investments	(3.0)	3.7	(6.7)	n.m.
Restructuring costs / One-off costs	(22.9)	(931.4)	908.5	-97.5%
Risks and charges associated to the SRF, DGS and similar schemes	(133.7)	(179.7)	46.0	-25.6%
DTA Fee	(62.9)	(62.9)	-	0.0%
Net gains (losses) on property, plant and equipment and intangible assets measured at fair value	(53.1)	(31.1)	(22.0)	0.7
Gains (losses) on disposal of investments	0.4	0.8	(0.4)	-50.0%
Profit (Loss) for the year before tax	1,706.5	(605.1)	2,311.6	n.m.
Income taxes for the year	345.1	426.6	(81.5)	-19.1%
Profit (Loss) after tax	2,051.6	(178.5)	2,230.1	n.m.
Net profit (loss) for the year including non-controlling interests	2,051.6	(178.5)	2,230.1	n.m.
Net profit (loss) attributable to non-controlling interests	(0.2)	(0.1)	(0.1)	100.0%
Parent company's net profit (loss) for the year	2,051.8	(178.4)	2,230.2	n.m.

* The income statement figures as at 31 December 2022 have been restated, compared to those published at the reporting date, not only for the aforementioned retrospective application of the accounting standards of insurance affiliates, but also to take into account the discontinued application of the reclassifications on PPA and Rents.



Quarterly trend in reclassified consolidated income statement								
MONTEPASCHI GROUP	2023				2022			
	4°Q 2023	3°Q 2023	2°Q 2023	1°Q 2023	4°Q 2022	3°Q 2022	2°Q 2022	1°Q 2022
Net interest income	604.2	605.0	578.3	504.5	498.4	378.7	336.3	322.2
Net fee and commission income	335.3	316.6	338.3	331.7	309.0	326.7	359.5	369.5
Income from banking activities	939.5	921.6	916.6	836.2	807.4	705.4	695.8	691.7
Dividends, similar income and gains (losses) on investments	34.4	19.7	34.4	18.7	30.2	30.2	24.0	27.2
Net profit (loss) from trading, the fair value measurement of assets/liabilities and Net gains (losses) on disposals/repurchases	12.6	7.6	22.0	25.1	0.4	(8.6)	6.9	75.6
Net profit (loss) from hedging	(2.6)	(1.9)	(0.5)	0.6	(2.4)	0.8	3.2	4.6
Other operating income (expenses)	8.6	6.0	(0.2)	(1.7)	3.3	0.3	23.7	0.2
Total Revenues	992.5	953.0	972.3	878.9	838.9	728.1	753.6	799.2
Administrative expenses:	(440.6)	(399.2)	(406.2)	(421.1)	(459.9)	(480.3)	(488.8)	(491.7)
a) personnel expenses	(320.9)	(284.3)	(286.7)	(287.6)	(326.9)	(354.0)	(356.8)	(355.9)
b) other administrative expenses	(119.7)	(114.8)	(119.5)	(133.5)	(132.9)	(126.3)	(132.0)	(135.8)
Net value adjustments to property, plant and equipment and intangible assets	(44.4)	(44.8)	(43.0)	(43.5)	(46.5)	(47.1)	(46.6)	(47.3)
Operating expenses	(485.0)	(444.0)	(449.2)	(464.6)	(506.4)	(527.4)	(535.4)	(539.0)
Pre-Provision Operating Profit	507.6	509.1	523.1	414.3	332.6	200.7	218.2	260.2
Cost of customer credit	(133.3)	(102.1)	(97.7)	(107.2)	(96.9)	(95.1)	(113.7)	(111.3)
Net impairment (losses)/reversals on securities and loans to banks	(2.9)	(1.9)	0.1	1.5	(2.5)	(0.3)	2.1	(0.4)
Net operating income	371.3	405.1	425.5	308.6	233.1	105.3	106.6	148.5
Net provisions for risks and charges	466.1	7.5	4.1	(6.5)	(40.7)	121.8	(50.1)	(29.0)
Other gains (losses) on equity investments	0.1	(1.8)	0.3	(1.6)	-	2.5	(0.7)	1.9
Restructuring costs / One-off costs	(13.3)	(13.1)	9.7	(6.2)	(2.9)	(925.4)	(2.9)	(0.2)
Risks and charges associated to the SRF, DGS and similar schemes	0.1	(75.2)	(0.2)	(58.4)	(7.5)	(83.5)	-	(88.7)
DTA Fee	(15.7)	(15.7)	(15.7)	(15.7)	(15.8)	(15.7)	(15.7)	(15.8)
Net gains (losses) on property, plant and equipment and intangible assets measured at fair value	(24.3)	-	(28.9)	0.1	(20.3)	-	(10.8)	-
Gains (losses) on disposal of investments	-	0.2	0.2	-	-	-	0.9	(0.1)
Profit (Loss) for the year before tax	784.3	306.9	395.0	220.3	145.9	(795.1)	27.4	16.8
Income taxes for the year	338.8	2.7	(11.8)	15.4	10.1	407.6	3.0	5.9
Profit (Loss) after tax	1,123.1	309.6	383.2	235.7	156.0	(387.5)	30.4	22.7
Net profit (loss) for the year including non-controlling interests	1,123.1	309.6	383.2	235.7	156.0	(387.5)	30.4	22.7
Net profit (loss) attributable to non-controlling interests	(0.1)	-	(0.1)	-	-	-	(0.1)	-
Parent company's net profit (loss) for the year	1,123.2	309.6	383.3	235.7	156.0	(387.5)	30.5	22.7

* The income statement figures as at 31 December 2022 have been restated, compared to those published at the reporting date, not only for the aforementioned retrospective application of the accounting standards of insurance affiliates, but also to take into account the discontinued application of the reclassifications on PPA and Rents.



Revenue trends

As at 31 December 2023, the Group achieved total Revenues of EUR 3,797 mln, up by 21.7% compared to the previous year.

This trend is attributable to the growth in Net Interest Income which, as regards lending, benefits from the favourable interest rate scenario, in a context of careful monitoring of the cost of funding. The positive performance of Net Interest Income more than offset the lower contribution of Net Fee and Commission income (recorded above all on income from asset management, due to the changed market scenario) and other revenue components.

Revenues in the fourth quarter of 2023 amounted to EUR 993 mln, up compared to the previous quarter (+ 4.1%), driven by Net fee and commission income (+ 5.9%), against an almost stable Net Interest Income. Other income from banking business also increased as a result of higher income generated by equity investments in insurance associates.

The table below shows the trend in revenues for each of the operating segments identified in accordance with IFRS8.

SEGMENT REPORTING	Operating Segments								Corporate Center		Total Montepaschi Group	
	Retail banking		Wealth Management		Corporate banking		Large Corp. & Investment Banking					
Primary segment												
(EUR mln)	31/12/23	Chg % Y/Y	31/12/23	Chg % Y/Y	31/12/23	Chg % Y/Y	31/12/23	Chg % Y/Y	31/12/23	Chg % Y/Y	31/12 /23	Chg % Y/Y
PROFIT AND LOSS AGGREGATES												
Net interest income	1,132.8	n.m.	54.9	n.m.	1,024.1	n.m.	127.8	-5.1%	(47.6)	n.m.	2,292.1	49.3%
Net fee and commission income, of which	755.9	-5.5%	109.8	-1.6%	490.9	0.9%	56.1	23.9%	(90.9)	14.9%	1,321.9	-3.1%
Fee and commission income	834.1	-4.7%	110.6	-1.7%	505.8	-0.8%	87.0	0.8%	14.9	n.m.	1,552.5	-2.4%
Fee and commission expense	(78.2)	4.3%	(0.8)	-8.1%	(14.9)	-36.1%	(30.8)	-24.8%	(105.8)	22.4%	(230.6)	1.7%
Other Revenues from Banking and Insurance Business	69.8	0.3%	17.0	-10.8%	23.9	-3.2%	50.3	n.m.	9.1	-87.0%	170.1	-11.4%
Other operating expenses/income	(7.7)	n.m.	(1.3)	n.m.	(4.6)	-5.9%	0.7	-24.3%	25.7	-18.7%	12.8	-53.4%
Total Revenue	1,950.8	55.2%	180.5	33.0%	1,534.2	53.7%	234.9	23.9%	(103.7)	n.m.	3,796.8	21.7%

* The income statement figures as at 31 December 2022 have been restated, compared to those published at the reporting date, not only for the retrospective application of the accounting standards of insurance affiliates, but also to take into account the discontinued application of the reclassifications on PPA and Rents.

Net Interest Income, at 31 December 2023, amounted to **EUR 2,292 mln**, up significantly compared to 2022 (+ 49.3%). This growth was mainly driven by (i) the increased contribution of the commercial sector, which benefited, inter alia, from higher interest income on loans, generated by the increase in interest rates, only partially compensated by the higher interests on collections, (ii) the higher contribution of the portfolio of securities as a result of higher yields, and (iii) the greater contribution from bank transactions. In relations with central banks, a net cost of EUR 70 mln was recognised as at 31 December 2023, compared to the net benefit of EUR 161 mln at the end of 2022. This performance is attributable to the ECB's monetary policy decisions, which introduced several increases in reference rates and some changes, starting from 23 November 2022, to the terms and conditions applied to existing TLTRO auctions²². In fact, a cost of EUR 409 mln (plus a further EUR 132 mln in interest expense relating to MRO and LTRO auctions) was recorded on the latter in 2023, compared to the benefit of EUR 131 mln recorded in the previous year; this effect was only partially offset by the income on liquidity deposited with central banks, equal to EUR 471 mln as at 31 December 2023 compared to EUR 30 mln in 2022. The cost of market funding also increased compared to the previous year, following the rise in rates and new issues in 2023 (senior preferred bonds for a nominal EUR 750 mln and EUR 500 mln issued in the first and third quarter of 2023, respectively).

²² It should be noted that the interest up to 23 June 2022 had benefited from the so-called "special interest rate period", with a rate applied equal to -1%; from 24 June until 22 November 2022, the rate applied and settled at maturity was the average rate on deposits with the Central Bank (Deposit Facility Rate or DFR), calculated from the date of issue until 22 November 2022, while starting from 23 November 2022, the rate applied is equal to the average DFR in force from that date until maturity.



Net interest income in the fourth quarter of 2023 was substantially stable compared to the previous quarter (-0.1%), with a remix of cost between commercial funding and the net cost of relations with central banks. In particular, the net cost of relations with central banks was down compared to the previous quarter due to both the decrease in interest expense on TLTRO auctions (EUR 47 mln in the fourth quarter of 2023 and EUR 77 mln in the third quarter of 2023, respectively), following the maturity at the end of September 2023 (EUR 3 bn), and due to the greater benefit on the liquidity deposited (EUR 130 mln in the fourth quarter of 2023 compared to EUR 114 mln in the previous quarter). On the other hand, the cost of MRO and LTRO auctions increased (EUR 75 mln in the fourth quarter of 2023 compared to EUR 55 mln in the third quarter of 2023).

Items	31 12 2023	31 12 2022*	Chg. Y/Y		4°Q 2023	3°Q 2023	Chg. Q/Q	
			Abs.	%			Abs.	%
Loans to customers measured at amortised cost	2,378.9	1,524.3	854.5	56.1%	589.4	617.1	(27.7)	-4.5%
Loans to Banks measured at amortised cost	79.2	11.1	68.1	n.m.	28.3	23.6	4.7	20.1%
Loans to Central Banks	(69.5)	160.6	(230.2)	n.m.	7.1	(17.6)	24.7	n.m.
Government securities and other non-bank issuers at amortised cost	217.4	123.9	93.5	75.5%	60.7	56.4	4.3	7.6%
Securities issued	(382.7)	(309.0)	(73.7)	23.9%	(114.3)	(95.5)	(18.8)	19.7%
Hedging derivatives	(90.5)	(87.4)	(3.1)	3.5%	(2.1)	(23.8)	21.7	-91.2%
Trading portfolios	40.3	40.3	-	0.0%	2.8	10.4	(7.6)	-73.1%
Portfolios measured at fair value	7.2	5.9	1.3	22.0%	1.5	2.0	(0.5)	-25.0%
Financial assets measured at fair value through other comprehensive income	46.2	44.8	1.4	3.1%	10.6	12.0	(1.4)	-11.7%
Other financial assets and liabilities	65.6	21.0	44.6	n.m.	20.2	20.4	(0.2)	-1.0%
Net interest income	2,292.1	1,535.6	756.4	49.3%	604.2	605.0	(0.8)	-0.1%
<i>of which: interest income on impaired financial assets</i>	<i>84.0</i>	<i>62.4</i>	<i>21.6</i>	<i>34.6%</i>	<i>26.5</i>	<i>20.6</i>	<i>5.9</i>	<i>28.6%</i>

* The income statement values as at 31 December 2022 were restated, compared to those published at the reporting date, to reflect the discontinued application of the reclassifications on the PPA.

Net fee and commission income as at 31 December 2023, totalling **EUR 1,322 mln**, showed a decline compared to the previous year (-3.1%), which was mainly due to income from asset management (-3.7%). In this respect, the higher income from assets under custody, due to the renewed interest on the part of customers for fixed-rate investments (mainly government bonds), partially offset the lower commissions from assets under management. Commissions from traditional banking services were down slightly (-0.9%) as a result of the decline recorded in the card and payments segment; the contribution of income to receivables was stable. Finally, the trend in brokered consumer credit commissions (-47.9%) is attributable to the enhancement of the in-house consumer finance factory, which was launched last year.

The contribution of the fourth quarter of 2023 was up compared to the previous quarter (+ 5.9%), thanks above all to commissions from traditional banking services (+ 9.4%), which benefited in particular from the recovery in the credit sector; asset management commissions also increased (+ 1.0%).



Services/value	31 12 2023	31 12 2022	Change Y/Y		4°Q 2023	3°Q 2023	Change Y/Y	
			abs.	%			abs.	%
Wealth management fees	568.4	590.3	(21.9)	-3.7%	142.6	141.2	1.4	1.0%
Product placement	142.1	169.4	(27.4)	-16.1%	35.0	35.5	(0.5)	-1.4%
Continuing fees	426.4	420.9	5.4	1.3%	107.6	105.7	1.9	1.8%
Fee and commissions from traditional activities	738.2	744.9	(6.8)	-0.9%	188.8	172.7	16.2	9.4%
Credit fees	375.6	377.1	(1.5)	-0.4%	95.6	90.0	5.7	6.3%
Payments and cards	176.7	183.9	(7.2)	-3.9%	44.8	43.7	1.1	2.6%
Current accounts and others	185.9	183.9	2.0	1.1%	48.4	39.0	9.3	23.9%
Third-party consumer loan fees	15.3	29.4	(14.1)	-47.9%	3.8	2.7	1.1	42.0%
Net fees and commission income	1,321.9	1,364.6	(42.7)	-3.1%	335.3	316.6	18.7	5.9%

SEGMENT REPORTING	Operating Segments								Corporate Center	Total Montepaschi Group	
	Retail banking		Wealth Management		Corporate banking		Large Corp. & Investment Banking				
	31/12/23	Chg. % Y/Y	31/12/23	Chg. % Y/Y	31/12/23	Chg. % Y/Y	31/12/23	Chg. % Y/Y		31/12/23	31/12/23
Assets under management fee	492.2	-3.9%	99.4	-1.2%	18.7	-8.7%	0.2	n.m.	-	610.5	-3.6%
Product placement	128.2	-19.1%	11.2	61.8%	2.7	-35.9%	0.0	-99.3%	-	142.1	-16.2%
Continuing fees	292.0	0.6%	81.1	-8.2%	8.7	1.1%	0.2	n.m.	-	382.0	-1.3%
Placement of securities	37.2	29.0%	6.9	33.1%	1.8	24.0%	0.1	31.5%	-	46.0	29.7%
Sales of Protection	34.8	0.2%	0.2	-10.0%	5.5	-11.7%	0.0	18.7%	-	40.5	-1.7%
Fee and commissions from traditional activities	331.4	-5.6%	6.2	-3.8%	463.8	-2.5%	51.3	-13.2%	-	852.7	-4.5%
Credit fees	50.2	-18.7%	1.7	0.7%	257.4	-2.8%	38.5	-13.3%	-	347.9	-6.6%
Fees from foreign service	6.0	6.9%	0.3	17.1%	48.2	-0.3%	10.3	-16.3%	-	64.8	-2.6%
Other services	275.1	-3.1%	4.2	-6.7%	158.2	-2.8%	2.6	3.6%	-	440.0	-3.0%
Other fees and commission income	10.6	-11.3%	5.0	-7.8%	23.3	72.2%	35.4	30.8%	14.9	89.3	36.4%
Net fees and commission income	834.1	-4.7%	110.6	-1.7%	505.8	-0.8%	87.0	0.8%	14.9	1,552.5	-2.4%

Dividends, similar income and gains (losses) on investments totalled **EUR 107 mln** and fell by EUR 5 mln when compared to 31 December 2022, primarily due to lower income generated by the insurance investments. Vice versa, the result for the fourth quarter of 2023 was up compared to the previous quarter (EUR +15 mln), in relation to the higher contribution from the aforementioned insurance companies.

Net profit (loss) from trading, fair value measurement of assets/liabilities and gains on disposal/repurchase as at 31 December 2023 amounted to **EUR 67 mln**, a decrease of EUR 7 mln compared to the figures of the previous year, while the result for the fourth quarter of 2023 is an increase of EUR 5 mln compared to the previous quarter. The analysis of the main aggregates shows the following:

- **Net profit from trading** was **EUR 61 mln**, compared to the loss of EUR -19 mln recorded in the previous year. The growth is mainly attributable to market maker activities on the reference markets, which in the current year benefited from a more favourable operating environment (also following the rates increase). The result for the fourth quarter of 2023, positive for EUR 6 mln, is substantially stable compared to the previous quarter (EUR -0.3 mln).
- **Net profit (loss) from other assets/liabilities measured at fair value through profit or loss** amounted essentially to EUR -4 mln, down compared to EUR 44 mln recorded in the previous year, which had benefited from higher capital gains recorded, in particular, on UCITS and on bond liabilities. The result in the fourth quarter of 2023 was EUR 5 mln lower than that of the previous quarter.
- **Profits from disposal/repurchase** (excluding loans to customers at amortised cost) of **EUR 10 mln**, entirely realised in the fourth quarter of 2023, against the sale of government securities in the portfolio of



Financial assets measured at amortised cost of the Parent Company; in 2022, gains from the sale of government bonds at amortised cost amounted to EUR 49 mln.

Items	31 12 2023	31 12 2022	Chg. Y/Y		4°Q 2023	3°Q 2023	Chg. Q/Q	
			Abs.	%			Abs.	%
Financial assets held for trading	177.0	(466.8)	643.7	n.m.	108.9	(32.7)	141.6	n.m.
Financial liabilities held for trading	(65.7)	345.8	(411.5)	n.m.	(82.0)	66.2	(148.2)	n.m.
Exchange rate effects	(7.2)	21.1	(28.3)	n.m.	(9.6)	2.7	(12.3)	n.m.
Derivatives	(43.1)	81.2	(124.3)	n.m.	(11.3)	(29.9)	18.6	-62.2%
Trading results	61.0	(18.7)	79.6	n.m.	6.0	6.3	(0.3)	-4.1%
Net profit (loss) from other financial assets and liabilities measured at fair value through profit or loss	(3.7)	43.6	(47.3)	n.m.	(3.3)	1.3	(4.6)	n.m.
Disposal/repurchase (excluding loans to customers measured at amortised cost)	10.0	49.3	(39.3)	-79.6%	9.9	-	9.9	n.m.
Net profit (loss) from trading, the fair value measurement of assets/liabilities and Net gains (losses) on disposals/repurchases	67.3	74.2	(6.9)	-9.3%	12.6	7.6	5.0	66.4%

The following items are also included in Revenues:

- **Net profit (loss) from hedging** were **EUR -4 mln** (compared to the positive result of EUR 6 mln in the previous year), with a result in the fourth quarter of 2023 of EUR -3 mln (compared to the EUR -2 mln in the previous quarter).
- **Other operating income/expenses for EUR 13 mln** (compared to the income of EUR 27 mln of the previous year), with a positive contribution in the fourth quarter of 2023 of EUR 9 mln (up from a positive result of EUR 6 mln in the previous quarter).

Operating expenses

As at 31 December 2023, **Operating Expenses** amounted to **EUR 1,843 mln**, down compared to 2022 (-12.6%); on the other hand, the amount in the fourth quarter of 2023 was up compared to the previous quarter (+ 9.2%), incorporating, in personnel expenses, the effects of the renewal of the National Collective Labour Agreement signed last November. A closer look at the individual aggregates reveals the following:

- **Administrative expenses** amounted to **EUR 1,667 mln**, down compared to the 2022 (-13.2%), with an upward trend of the fourth quarter of 2023 compared to the previous quarter (+ 10.4%). A breakdown of the aggregate shows:
 - **Personnel expenses**, which amounted to **EUR 1,180 mln**, were down by 15.3% compared to the previous year, mainly as a result of the *full-year* benefits related to the 2022 redundancy/solidarity fund measures; this decrease was only partly offset by the higher charges related to the renewal of the National Collective Labour Agreement for bankers and the variable incentive component of remuneration, which was not planned for 2022. The balance of the fourth quarter of 2023 is higher than the previous quarter (+ 12.9%) since it includes the effects of the aforementioned renewal of the National Collective Labour Agreement, effective from 1 July 2023 and accounted for after the signing of the agreement on 23 November 2023.
 - **Other administrative expenses**, which amounted to **EUR 488 mln**, were down compared to 31 December 2022 (-7.5%), thanks to a continuous process of cost reduction. The amount for the fourth quarter of 2023, on the other hand, shows an increase compared to the previous quarter (+ 4.2%).
- **Net adjustments to property, plant and equipment and intangible assets** amounted to **EUR 176 mln** as at 31 December 2023, down compared to 2022 (-6.3%); the fourth quarter of 2023 was substantially stable compared with the previous third quarter (-0.9%).



Type of transaction	31 12 2023	31 12 2022*	Chg Y/Y		4°Q 2023	3°Q 2023	Chg Q/Q	
			Abs.	%			Abs.	%
Wages and salaries	(845.7)	(997.0)	151.3	-15.2%	(230.4)	(204.4)	(26.0)	12.7%
Social-welfare charges	(231.8)	(277.2)	45.4	-16.4%	(61.9)	(55.9)	(6.0)	10.7%
Other personnel expenses	(102.1)	(119.3)	17.2	-14.4%	(28.6)	(24.0)	(4.5)	18.9%
Personnel expenses	(1,179.6)	(1,393.5)	213.9	-15.3%	(320.9)	(284.3)	(36.5)	12.9%
Taxes	(211.0)	(210.7)	(0.3)	0.1%	(58.4)	(49.3)	(9.1)	18.5%
Furnishing, real estate and security expenses	(92.1)	(88.2)	(3.9)	4.4%	(19.9)	(23.9)	4.0	-16.6%
General operating expenses	(168.7)	(182.4)	13.7	-7.5%	(38.7)	(38.1)	(0.6)	1.6%
Information technology expenses	(111.0)	(124.2)	13.2	-10.6%	(18.0)	(30.3)	12.3	-40.6%
Legal and professional expenses	(61.5)	(72.9)	11.4	-15.6%	(16.9)	(13.4)	(3.5)	26.3%
Indirect personnel costs	(4.7)	(5.1)	0.4	-7.8%	(1.5)	(1.2)	(0.3)	25.0%
Insurance	(17.4)	(19.9)	2.5	-12.6%	(4.2)	(4.4)	0.2	-4.5%
Advertising, sponsorship and promotions	(6.3)	(3.1)	(3.2)	n.m.	(1.4)	(0.7)	(0.7)	100.0%
Other	(13.2)	(20.4)	7.2	-35.3%	(15.6)	(1.5)	(14.1)	n.m.
Expenses recovery	198.4	199.8	(1.4)	-0.7%	54.9	47.9	7.0	14.6%
Other administrative expenses	(487.5)	(527.1)	39.6	-7.5%	(119.7)	(114.8)	(4.9)	4.2%
Property, plant and equipment	(108.4)	(118.9)	10.5	-8.8%	(26.5)	(27.4)	0.9	-3.3%
Intangible assets	(67.3)	(68.6)	1.3	-1.9%	(17.9)	(17.4)	(0.5)	2.9%
Net value adjustments to property, plant and equipment and intangible assets	(175.7)	(187.5)	11.8	-6.3%	(44.4)	(44.8)	0.4	-0.9%
Operating expenses	(1,842.8)	(2,108.1)	265.3	-12.6%	(485.0)	(444.0)	(41.0)	9.2%

* The income statement values as at 31 December 2022 were restated, compared to those published at the reporting date, to reflect the discontinued application of the reclassifications on PPA and Rents.

As a result of these trends, the Group's **Gross Operating Income** amounted to **EUR 1,954 mln**, almost doubled compared to 2022 (EUR 1,012 mln). The result for the fourth quarter (equal to EUR 508 mln) was substantially in line with the previous quarter (equal to EUR 509 mln).



Cost of customer credit

At 31 December 2023, the Group recognised a **Cost of customer credit** equal to **EUR 440 mln**, up compared to EUR 417 mln of the previous year. The figure for 2023 includes the adjustments related to the sale of non-performing loans finalised during the year, the cost deriving from the use of sales scenarios in the estimation models and the effects resulting from the updates of the statistical valuation models, partially offset by the reduction of the management overlays to protect the vulnerabilities of risk parameters in the current macroeconomic context, as they are almost completely overcome by modelling updates. The contribution of the fourth quarter 2023, amounting to EUR 133 mln, was up from the previous quarter (amounting to EUR 102 mln) due to the aforementioned updates.

As at 31 December 2023, the ratio between the Cost of Customer Credit and the sum of Customer Loans and the value of securities deriving from the sale/securitisation of non-performing loans results in a **Provisioning Rate** of **57 bps** (52 bps as at 30 September 2023 and 55 bps as at 31 December 2022).

Items	31 12 2023	31 12 2022	Chg. Y/Y		4°Q 2023	3°Q 2023	Chg. Q/Q	
			Abs.	%			Abs.	%
Loans to customers measured at amortised cost	(417.5)	(428.7)	11.2	-2.6%	(125.8)	(95.8)	(30.0)	31.3%
Modification gains/(losses)	(6.8)	4.3	(11.1)	n.m.	(4.2)	(2.3)	(1.9)	82.6%
Gains/(losses) on disposal/repurchase of loans to customers measured at amortised cost	(0.1)	2.8	(2.9)	n.m.	(0.3)	0.4	(0.7)	n.s.
Net change of Loans to customers mandatorily measured at fair value	(0.5)	6.7	(7.2)	n.m.	(0.4)	0.5	(0.9)	n.s.
Net provisions for risks and charges on commitments and guarantees issued	(15.4)	(2.0)	(13.4)	n.m.	(2.6)	(4.9)	2.3	-46.9%
Adjustments to cost of customer credit	(440.3)	(416.9)	(23.4)	5.6%	(133.3)	(102.1)	(31.2)	30.6%

The Group's **Net Operating Income** as at 31 December 2023 stood at **EUR 1,511 mln**, more than doubled compared with EUR 594 mln as at 31 December 2022. The result for the fourth quarter of 2023 was EUR 371 mln, down from EUR 405 mln in the previous quarter.

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

The **Net profit (loss) for the year** included the following items:

- **Other net provisions for risks and charges** amounted to **EUR 471 mln** as at 31 December 2023, compared to EUR 2 mln recorded in the previous year. Net releases in 2023, almost entirely relating to the fourth quarter (EUR 466 mln, compared to EUR 7 mln in the previous quarter), are almost entirely attributable to the downgrading of the risk of a disbursement of financial resources resulting from a potential negative outcome of the civil and criminal litigation relating to financial information disseminated in the period 2008-2015, following the favourable rulings issued in the last quarter of 2023.
- **Other gains (losses) on investments** equal to **EUR -3 mln** at 31 December 2023 (including the impairment recorded on a Group equity investment), against a gain of EUR 4 mln recorded in the previous year. The result of the fourth quarter of 2023 was essentially nil compared to EUR -2 mln of the previous quarter.
- **Restructuring costs/One-off costs** of **EUR -23 mln** as at 31 December 2023 compared to a balance of EUR -931 mln in 2022, which included provisions allocated for the early retirement incentive/solidarity fund. The balance for the fourth quarter of 2023 was EUR -13 mln, in line with the previous quarter.
- **Risks and charges associated with SRF, DGS and similar schemes**, amounted to **EUR -134 mln** as at 31 December 2023, consisting of contributions of EUR -59 mln due to the Single Resolution Fund (SRF), (recognised in the first quarter of 2023), and to the FIDT (DGS) for EUR -75 mln (recognised in the third quarter of 2023). The balance posted in 2022 was EUR -180 mln.
- **DTA fee**, amounting to **EUR -63 mln** as at 31 December 2023, essentially unchanged compared to the previous year; the figure for the fourth quarter 2023 was also in line with the previous quarter. This amount, determined according to the criteria set forth in Italian Law Decree 59/2016 converted into Italian Law no.



119 of 30 June 2016, represents the fee as at 31 December 2023 on DTA (Deferred Tax Assets) that can be converted into a tax credit.

- **Net gains (losses) on property, plant and equipment and intangible assets measured at fair value** amounting to **EUR -53 mln** as at 31 December 2023, recognised in the second quarter (EUR -29 mln) and in the fourth quarter (EUR -24 mln) as a result of the periodic revaluation of real estate assets, compared with the result of EUR -31 mln recognised as at 31 December 2022.
- **Gains (losses) on disposal of investments**, equal to EUR 0.4 mln as at 31 December 2023, in line with the amount recorded as at 31 December 2022 (EUR 0.8 mln).

As a result of the trends highlighted above, the Group **Profit for the year before taxes** amounted to **EUR 1,707 mln**, compared to the Loss before tax of EUR 605 mln posted in 2022. The result for the fourth quarter of 2023 was EUR 784 mln, up sharply compared to EUR 307 mln in the previous quarter.

Income taxes for the year recorded a positive contribution of **EUR 345 mln** (positive result of EUR 427 mln as at 31 December 2022) mainly attributable to the valuation of DTAs net of taxation related to the economic result for the year, which also benefits from the acceleration, within the current probability test based on the Plan targets, of the recovery of the value of DTAs from tax losses resulting from the repeal of the ACE, starting from 2024 as provided for in Article 5 of Italian Legislative Decree 216 of 30 December 2023.

As a result of the trends described above, the **Parent Company's profit for the year** amounted to **EUR 2,052 mln** as at 31 December 2023, compared to a loss of EUR 178 mln as at 31 December 2022. The result for the fourth quarter, equal to EUR 1,123 mln, was up compared to the previous quarter (EUR 310 mln).

In compliance with Consob's instructions, following is a statement of the reconciliation of the Shareholders' equity and Net profit (loss) for the year of the Parent Company with the consolidated items:

Reconciliation between Parent Company and Consolidated Net Equity and Profit (Loss) for the year		
	Shareholders' equity	Net profit (loss) for the year
Parent Company's net equity	9,641.7	2,021.5
<i>of which Parent Company's valuation reserves</i>	20.1	-
Impact of line-by-line consolidation of subsidiaries	(15.2)	61.3
Impact of consolidation of jointly controlled entities and associates	134.8	85.4
Reversal of dividends from subsidiaries	-	(116.5)
Reversal of written-down equity investments	193.1	6.8
Other adjustments	16.4	(6.7)
Subsidiaries' and associates' valuation reserves	7.9	-
Consolidated balance	9,978.5	2,051.8
<i>of which valuation reserves</i>	27.9	



Reclassified balance sheet

The (i) reclassified balance sheet as at 31 December 2023 compared with the balances set forth in the financial statements as at 31 December 2022 and (ii) the statement of its quarterly evolution starting from the first quarter of the previous year are provided below.

Reclassified Consolidated Balance Sheet				
Assets	31 12 2023	31 12 2022*	Chg	
			abs.	%
Cash and cash equivalents	14,317.3	12,538.6	1,778.7	14.2%
Loans to central banks	526.8	628.1	(101.3)	-16.1%
Loans to banks	2,582.2	1,950.1	632.1	32.4%
Loans to customers	76,815.6	76,265.3	550.3	0.7%
Securities assets	17,276.9	18,393.6	(1,116.7)	-6.1%
Derivatives	2,776.3	3,413.6	(637.3)	-18.7%
Equity investments	726.7	750.7	(24.0)	-3.2%
Property, plant and equipment/Intangible assets	2,482.7	2,604.0	(121.3)	-4.7%
<i>of which: goodwill</i>	7.9	7.9	-	0.0%
Tax assets	2,150.9	2,216.4	(65.5)	-3.0%
Other assets	2,958.3	1,474.9	1,483.4	n.m.
Total assets	122,613.7	120,235.3	2,378.4	2.0%

Liabilities	31 12 2023	31 12 2022*	Chg	
			abs.	%
Direct funding	90,639.0	81,997.6	8,641.4	10.5%
a) Due to customers	80,558.4	73,356.8	7,201.6	9.8%
b) Securities issued	10,080.6	8,640.8	1,439.8	16.7%
Due to central banks	13,148.2	19,176.9	(6,028.7)	-31.4%
Due to banks	1,350.6	2,205.9	(855.3)	-38.8%
On-balance-sheet financial liabilities held for trading	1,823.2	2,567.2	(744.0)	-29.0%
Derivatives	1,361.7	1,722.9	(361.2)	-21.0%
Provisions for specific use	1,050.3	1,585.7	(535.4)	-33.8%
a) Provision for staff severance indemnities	72.0	70.2	1.8	2.6%
b) Provision related to guarantees and other commitments given	154.3	142.5	11.8	8.3%
c) Pension and other post-retirement benefit obligations	3.4	26.6	(23.2)	-87.2%
d) Other provisions	820.6	1,346.4	(525.8)	-39.1%
Tax liabilities	9.1	6.6	2.5	37.9%
Other liabilities	3,252.4	3,111.5	140.9	4.5%
Group net equity	9,978.5	7,860.1	2,118.4	27.0%
a) Valuation reserves	27.9	(26.9)	54.8	n.m.
d) Reserves	445.3	611.9	(166.6)	-27.2%
f) Share capital	7,453.5	7,453.5	-	0.0%
h) Net profit (loss) for the year	2,051.8	(178.4)	2,230.2	n.m.
Non-controlling interests	0.7	0.9	(0.2)	-22.2%
Total Liabilities and Shareholders' Equity	122,613.7	120,235.3	2,378.4	2.0%

* The balance sheet values as at 31 December 2022 were restated, compared to those published at the reporting date, following the retrospective application of the new IFRS 17 "Insurance contracts" and IFRS 9 "Financial instruments" by the insurance associates. For further details of the items affected, see the paragraph on Adoption of the accounting standards "IFRS 17 Insurance Contracts" and "IFRS 9 Financial Instruments" in the companies AXA MPS Assicurazioni Vita and AXA MPS Assicurazioni Danni, included in "Part A – Other matters" in the Notes to the Consolidated Financial Statements.



Reclassified Consolidated Balance Sheet - Quarterly Trend								
Assets	31 12 2023	30 09 2023	30 06 2023	31 03 2023	31 12 2022*	30 09 2022*	30 06 2022*	31 03 2022*
Cash and cash equivalents	14,317.3	13,514.5	11,769.1	14,512.4	12,538.6	16,540.4	1,518.8	1,791.0
Loans to central banks	526.8	522.6	544.1	656.4	628.1	4,426.4	17,626.5	15,392.8
Loans to banks	2,582.2	2,270.1	2,237.9	2,125.8	1,950.1	2,715.5	1,432.1	2,424.9
Loans to customers	76,815.6	77,981.6	76,056.0	77,755.6	76,265.3	77,939.1	78,621.7	79,259.7
Securities assets	17,276.9	18,323.3	19,589.7	18,652.3	18,393.6	19,794.3	22,312.7	23,382.2
Derivatives	2,776.3	3,122.8	3,023.6	3,215.9	3,413.6	3,521.3	3,029.2	2,352.6
Equity investments	726.7	689.1	677.3	772.0	750.7	691.9	693.5	953.7
Property, plant and equipment/Intangible assets of which: goodwill	2,482.7 7.9	2,499.6 7.9	2,495.8 7.9	2,567.1 7.9	2,604.0 7.9	2,639.5 7.9	2,666.1 7.9	2,718.5 7.9
Tax assets	2,150.9	1,922.4	2,065.6	2,219.7	2,216.4	2,205.7	1,769.3	1,798.0
Other assets	2,958.3	2,346.4	2,342.0	1,808.8	1,474.9	1,317.1	1,645.0	1,904.2
Total assets	122,613.7	123,192.4	120,801.1	124,286.0	120,235.3	131,791.2	131,314.9	131,977.6
Liabilities	31 12 2023	30 09 2023	30 06 2023	31 03 2023	31 12 2022*	30 09 2022*	30 06 2022*	31 03 2022*
Direct funding	90,639.0	89,414.6	84,142.3	84,067.0	81,997.6	83,805.1	84,305.1	84,428.2
a) Due to customers	80,558.4	79,494.9	74,726.7	74,708.3	73,356.8	75,164.3	74,940.9	74,992.2
b) Securities issued	10,080.6	9,919.7	9,415.6	9,358.7	8,640.8	8,640.8	9,364.2	9,436.0
Due to central banks	13,148.2	13,105.6	15,283.4	19,317.2	19,176.9	28,931.7	28,947.6	29,081.1
Due to banks	1,350.6	1,790.8	1,897.7	1,884.6	2,205.9	2,589.8	1,694.6	1,763.6
On-balance-sheet financial liabilities held for trading	1,823.2	3,614.6	2,859.9	3,276.3	2,567.2	2,362.2	2,658.7	3,174.4
Derivatives	1,361.7	1,493.9	1,554.5	1,608.7	1,722.9	1,777.2	1,727.5	2,081.9
Provisions for specific use	1,050.3	1,501.9	1,523.3	1,554.2	1,585.7	2,582.4	1,822.2	1,820.6
a) Provision for staff severance indemnities	72.0	67.7	67.7	69.9	70.2	136.9	142.5	157.8
b) Provision related to guarantees and other commitments given	154.3	152.6	148.6	152.8	142.5	148.5	148.8	147.8
c) Pension and other post-retirement benefit obligations	3.4	3.5	3.7	3.8	26.6	24.2	24.9	29.0
d) Other provisions	820.6	1,278.1	1,303.3	1,327.7	1,346.4	2,272.8	1,506.0	1,486.0
Tax liabilities	9.1	8.3	7.0	6.9	6.6	6.9	6.0	6.5
Other liabilities	3,252.4	3,454.9	5,032.7	4,441.3	3,111.5	4,430.8	4,378.1	3,645.4
Group net equity	9,978.5	8,807.1	8,499.5	8,128.9	7,860.1	5,303.8	5,773.7	5,974.6
a) Valuation reserves	27.9	(15.8)	(18.4)	7.2	(26.9)	(56.0)	30.6	174.6
d) Reserves	445.3	440.8	445.4	432.5	611.9	740.1	(3,505.0)	(3,417.6)
f) Share capital	7,453.5	7,453.5	7,453.5	7,453.5	7,453.5	4,954.1	9,195.0	9,195.0
h) Net profit (loss) for the year	2,051.8	928.6	619.0	235.7	(178.4)	(334.4)	53.1	22.7
Non-controlling interests	0.7	0.7	0.8	0.9	0.9	1.3	1.4	1.3
Total Liabilities and Shareholders' Equity	122,613.7	123,192.4	120,801.1	124,286.0	120,235.3	131,791.2	131,314.9	131,977.6

* The balance sheet values of 2022 financial year were restated, compared to those published at the respective reporting date, following the retrospective application of the new IFRS 17 "Insurance contracts" and IFRS 9 "Financial instruments" by the insurance associates. For further details of the items affected, see the Explanatory Notes in the paragraph on Adoption of the accounting standards "IFRS 17 Insurance Contracts" and "IFRS 9 Financial Instruments" in the companies AXA MPS Assicurazioni Vita and AXA MPS Assicurazioni Danni, included in "Part A – Other matters" in the Notes to the Consolidated Financial Statements.



Customer funding

Group **Total Funding** as at 31 December 2023 amounted to approx. **EUR 187.5 bn**, an increase of EUR 5.6 bn compared to 30 September 2023, on both Direct Funding (EUR +1.2 bn) and Indirect Funding (EUR +4.3 bn). The latter benefited from both positive net flows on assets under administration and a positive market effect.

The aggregate also increased compared to 31 December 2022 (EUR +13.1 bn). The growth refers to both Direct Funding (EUR +8.6 bn) and Indirect Funding (EUR +4.4 bn).

Background

In 2023, the monetary restriction led to a moderate reduction in funding due to a reallocation from demand deposits to more profitable financial instruments and the decline in refinancing with the Eurosystem. Overall, deposits from ordinary customers decreased progressively (approx. -6% in November from the beginning of the year) with a recomposition on the most profitable component of deposits with a fixed duration. The trend for current account payables was therefore decidedly negative (down by more than -11.5% in November compared to year end 2022), against a strong increase in time deposits (up by more than 85% in the same period).

The deposits of the productive sector (non-financial corporations and producer households) decreased by -6.5% in November compared to the end of 2022; those of consumer households decreased slightly less (-5.8% in November compared to December 2022); overall, deposits held by the private sector (non-financial corporations and households) have decreased by approx. EUR 103 bn since the beginning of the year.

Bonds continued to record significant increases, with YoY growth reaching 19.7% in November. The process of reducing Eurosystem funding continued: until November, the banking system repaid TLTROs amounting to approximately EUR 200 bn, with most of the repayments taking place in June at the time of the auction with the most significant subscriptions.

The upward trend in interest rates continued during the year: in November, the interest rate on deposits of non-financial corporations and households stood at 0.95% (approx. +50 bps since end-2022); the rate on current accounts rose to 0.52% (up by around 37 bps since end-2022); the interest rate on time deposits with a fixed term stood at 3.23%, the largest increase (approx. +173 bps since December 2022). On bonds, the average rate on outstanding stock rose to 2.71% in November (approximately +60 bps compared to the end of 2022).

With regard to assets under management, the total balance of net inflows in the November figures recorded a negative value of EUR -49.5 bn, still driven by the decline in Institutional Management. From January to November 2023, the Funds recorded a negative net funding balance of EUR -19.3 bn, while Retail Asset Management again showed positive net inflows (EUR +1.9 bn from the start of the year). At category level, savers focused their choices on equity and bond funds (EUR +0.5 bn and EUR +21.8 bn of net inflows, respectively, since the beginning of the year); the balanced and flexible fund classes are still in the process of being divested. Total assets under management at the end of November stood at EUR 2,255 bn, essentially in line with the third quarter. For the life insurance market, from the beginning of the year to November, new business was recorded for EUR 64.5 bn, compared to EUR 67.4 bn in the same period of the previous year, with a YoY decrease of approximately -4%. On the bank and post office branch distribution channel up to November 2023, there was growth in the placement of traditional products (EUR +15.3 YoY), while hybrid solutions, already down since last year, recorded a decrease of -42.7% YoY; the component with the highest financial content (classic units), particularly exposed to market uncertainty, continued its downward trend, recording -43.6% YoY. With reference to the placement channels for life insurance products, at the end of the third quarter of the year the financial advisors' channel had partly mitigated the decline in business volumes, but still recorded a -16.8% compared to the same period of the previous year. More moderate negative performance in the agency channel (-4.8% YoY) and in the banking channel (-1.2% YoY).

Customer Funding							
	31 12 2023	30 09 2023	31 12 2022	Chg. Q/Q		Chg. Y/Y	
				Abs.	%	Abs.	%
Direct funding	90,639.0	89,414.6	81,997.6	1,224.4	1.4%	8,641.4	10.5%
Indirect funding	96,844.9	92,516.6	92,420.7	4,328.3	4.7%	4,424.2	4.8%
Total funding	187,483.9	181,931.2	174,418.3	5,552.7	3.1%	13,065.6	7.5%

Direct Funding volumes stood at **EUR 90.6 bn**, recording an increase compared to the end of September 2023 (EUR +1.2 bn). The increase was recorded mainly on time deposits (EUR +1.2 bn); current accounts (EUR +0.1



bn) and bonds (EUR +0.2 bn) also increased. Repurchase agreements (EUR -0.2 bn) and other forms of direct funding (EUR -0.1 bn) were down slightly.

The aggregate was also up compared to 31 December 2022 (EUR +8.6 bn) as a result of the growth in time deposits (EUR +1.6 bn), higher repurchase agreements (EUR +6.0 bn) and the bond component (EUR +1.4 bn), the latter following the placement of senior preferred bonds with a nominal value of EUR 750 mln and EUR 500 mln completed in the first and third quarters of 2023 respectively. On the other hand, current accounts and other forms of direct funding were down slightly.

The market share²³ of the Group on direct funding stood at 3.38%²⁴ (figure updated to December 2023), up slightly compared to December 2022 (3.35%), while the market share on demand deposits was 4.66%²⁵, up 33 bps compared to December 2022.

Direct funding							
Type of transaction	31 12 2023	30 09 2023	31 12 2022	Chg. Q/Q		Chg. Y/Y	
				Abs.	%	Abs.	%
Current accounts	65,446.3	65,308.2	65,783.3	138.1	0.2%	(337.0)	-0.5%
Time deposits	5,947.6	4,724.1	4,331.1	1,223.5	25.9%	1,616.5	37.3%
Reverse repurchase agreements	6,565.1	6,799.7	559.4	(234.6)	-3.5%	6,005.7	n.s.
Bonds	10,080.6	9,919.7	8,640.8	160.9	1.6%	1,439.8	16.7%
Other types of direct funding	2,599.4	2,662.9	2,683.0	(63.5)	-2.4%	(83.6)	-3.1%
Total	90,639.0	89,414.6	81,997.6	1,224.4	1.4%	8,641.4	10.5%

Indirect Funding amounted to approx. **EUR 96.8 bn**, up by EUR 4.3 bn compared to 30 September 2023 for assets under management (EUR +1.1 bn) and assets under custody (EUR +3.2 bn). The trend is mostly due to a positive market effect; positive net inflows were also recorded on assets under custody in the fourth quarter of 2023, linked to renewed interest from customers in government bonds as related returns increased.

Compared to 31 December 2022, indirect funding also increased (EUR +4.4 bn), driven by growth in assets under custody (EUR +5.3 bn), recorded mainly on the government bonds component.

Indirect Funding							
	31 12 2023	30 09 2023	31 12 2022	Chg. Q/Q		Chg. Y/Y	
				Abs.	%	Abs.	%
Assets under management	56,887.8	55,751.8	57,733.6	1,136.0	2.0%	(845.8)	-1.5%
<i>Funds</i>	26,745.5	25,821.0	25,701.0	924.5	3.6%	1,044.5	4.1%
<i>Individual Portfolio under Management</i>	4,961.0	4,572.5	5,019.2	388.5	8.5%	(58.2)	-1.2%
<i>Bancassurance</i>	25,181.3	25,358.3	27,013.5	(176.9)	-0.7%	-1,832.1	-6.8%
Assets under custody	39,957.1	36,764.8	34,687.1	3,192.3	8.7%	5,270.0	15.2%
<i>Government securities</i>	18,055.4	15,699.5	12,646.6	2,355.9	15.0%	5,408.8	42.8%
<i>Others</i>	21,901.7	21,065.3	22,040.5	836.4	4.0%	(138.8)	-0.6%
Total funding	96,844.9	92,516.6	92,420.7	4,328.3	4.7%	4,424.2	4.8%

²³ Deposits and repurchase agreements (excluding repurchase agreements with central counterparties) from ordinary resident customers and bonds net of repurchases placed with ordinary resident customers as first-instance borrowers.

²⁴ Estimate based on ABI preliminary data as at December 2023



Loans to customers

As at 31 December 2023, **Loans to customers** of the Group amounted to **EUR 76.8 bn**, down compared to 30 September 2023 (EUR -1.2 bn) mainly due to the decrease in mortgages (EUR - 1.3 bn), impacted by end-of-year maturities. On the other hand, repurchase agreements were up slightly (EUR +0.2 bn), while the other components were substantially stable.

The aggregate was up (EUR +0.6 bn) compared to 31 December 2022. The increase in repurchase agreements (EUR +2.7 bn) and the increase in other loans (EUR +0.6 bn) were in fact only partly offset by the decline recorded since the beginning of the year on mortgages (EUR -2.7 bn, penalised by the slowdown in demand and the selective approach of the Group) and on current accounts (EUR -0.1 bn).

The Group's market share²⁵ stood at 4.33%²⁶ (figure updated to December 2023), up compared to December 2022 (4.25%).

Background

The effects of the monetary restriction affected the trend in bank loans, which recorded a negative sign during the year with a contraction of -3.3% in November compared to the volumes recorded in December 2022. Loans to the private sector (net of repurchase agreements with central counterparties and adjusted for exposures sold and derecognised), on a downward trend since last April, again recorded a negative change of -3.2% YoY. The effect of official rate rises was transferred more intensely than in the past to the cost of corporate financing; in fact, the contraction in lending to non-financial corporations was more substantial (approx. -4.8% YoY in November), with corporate credit affected by: (i) weakness in the construction and machinery investment sectors; (ii) downturn in the services sector; (iii) tightening of banking offer criteria due to perceived higher risk; and (iv) a significant reduction in demand in a rising interest rate environment, where the use of alternative sources of funding and the use of accumulated liquidity to fund financing needs increased.

Lending to households also started to drop from last July, albeit at a more contained pace reaching -1.23% in November. Mortgages for home purchases slowed down during the year, with the change becoming negative in the last quarter (-0.3% in November YoY), affected by declining prospects of the real estate market, the rise in interest rates and the approach of households that may have chosen to self-finance from liquidity deposited and reduce bank debt to bring their financial expense. Consumer credit is the only component still growing, with an even greater percentage increase in the last quarter, reaching +5.6% compared to the beginning of the year.

The intermediaries interviewed at the end of the year in the quarterly bank lending survey (BLS - Bank Lending Survey - of 23 January 2024) stated that, in the 4th quarter of 2023, the offer criteria on loans to businesses and households remained stable; for the first quarter of 2024, intermediaries expect a loosening of the offer criteria on loans to businesses and a tightening of those to households; despite this, loans to households are expected to grow (+ 0.8%), supported by greater growth in their disposable income.

With regard to interest rates on the stock of loans, the most consistent increase recorded was in loans to non-financial companies (5.3% in November; +219 bps approximately since December 2022) compared to loans to households (4.24% in November, +97 bps approximately since December 2022). On new business transactions in November, the average rate rose by approx. 204 bps from the values at the end of 2022, reaching 5.59%. On new transactions with households, in November, the rate for home purchase loans rose to 4.49% (+148 bps approximately compared to December 2022) while that on consumer credit decreased slightly from the high of the summer months (from 8.89% in August to 8.59% in November, +103 bps approx. since end-2022).

The ratio of non-performing loans to total loans was still limited and remained unchanged in the third quarter of 2023, gross and net of value adjustments.

²⁵ Loans to ordinary resident customers, including bad loans and net of Repurchase Agreements with central counterparties.

²⁶ Estimate based on ABI preliminary data as at December 2023



Loans to customers							
Type of transaction	31 12 2023	30 09 2023	31 12 2022	Chg. Q/Q		Chg. Y/Y	
				Abs.	%	Abs.	%
Current accounts	2,755.7	2,766.1	2,882.6	(10.4)	-0.4%	(126.9)	-4.4%
Mortgages	51,837.6	53,136.9	54,540.5	(1,299.3)	-2.4%	(2,702.9)	-5.0%
Other forms of lending	14,218.7	14,266.9	13,648.0	(48.2)	-0.3%	570.7	4.2%
Repurchase agreements	6,230.0	6,050.9	3,482.9	179.1	3.0%	2,747.1	78.9%
Non-performing loans	1,773.6	1,760.8	1,711.3	12.8	0.7%	62.3	3.6%
Total	76,815.6	77,981.6	76,265.3	(1,166.0)	-1.5%	550.3	0.7%
Stage 1	65,325.6	65,442.4	63,295.9	(116.8)	-0.2%	2,029.7	3.2%
Stage 2	9,594.1	10,603.4	11,115.7	(1,009.3)	-9.5%	(1,521.6)	-13.7%
Stage 3	1,769.8	1,757.3	1,709.0	12.5	0.7%	60.8	3.6%
Purchased or originated credit impaired financial assets	2.8	2.8	2.2	-	0.0%	0.6	27.3%
Performing loans measured at fair value	121.2	173.8	140.8	(52.6)	-30.3%	(19.6)	-13.9%
Non-performing loans measured at fair value	2.1	1.9	1.7	0.2	10.5%	0.4	23.5%

	31 12 2023			30 09 2023			31 12 2022			Chg. Q/Q		Chg. Y/Y	
	Stage 1	Stage 2	Total loans to customers measured at amortised cost	Stage 1	Stage 2	Total loans to customers measured at amortised cost	Stage 1	Stage 2	Total loans to customers measured at amortised cost	Stage 1	Stage 2	Stage 1	Stage 2
Gross exposure	65,431.2	9,962.6	78,871.1	65,526.5	10,994.3	80,092.3	63,382.7	11,469.1	78,142.1				
Adjustments	105.6	368.5	2,178.8	84.1	390.9	2,286.4	86.8	353.3	2,019.3				
Net exposure	65,325.6	9,594.1	76,692.3	65,442.4	10,603.4	77,805.9	63,295.9	11,115.8	76,122.8				
Coverage ratio	0.2%	3.7%	2.8%	0.1%	3.6%	2.9%	0.1%	3.1%	2.6%	0.1%	0.1%	0.1%	0.6%
% on Loans to customers measured at amortised cost	85.2%	12.5%	100.0%	84.1%	13.6%	100.0%	83.1%	14.6%	100.0%	1.1%	-1.1%	2.1%	-2.1%

The gross exposure of loans classified as stage 1 equal to EUR 65.4 bn as at 31 December 2023, was substantially stable compared to 30 September 2023 (EUR 65.5 bn) and up compared to 31 December 2022 (EUR 63.4 bn).

Positions classified in stage 2, whose gross exposure amounted to EUR 10.0 bn as at 31 December 2023, down from both EUR 11.0 bn as at 30 September 2023 and EUR 11.5 bn as at 31 December 2022.

The stability observed in the last quarter on loans classified in stage 1 is due to the commercial development that offset the flows of maturities at the end of the year, while the reduction in loans in stage 2 is attributable to the natural amortisation of loans included in this stage, in particular those disbursed with a state guarantee during the period of the COVID-19 pandemic emergency, and in part to the updating of accounting model that took place in the fourth quarter of 2023. Coverage levels in the two stages were substantially stable.



Non-performing exposures of loans to customers

In the tables below, Non-performing loans to customers are represented by all cash exposures, in the form of loans to customers, regardless of the accounting portfolio to which they belong.

The Group's **Total non-performing loans to customers** as at 31 December 2023 was **EUR 3.5 bn** in terms of gross exposure, slightly down from 30 September 2023 (EUR -0.1 bn) and slightly up from 31 December 2022 (EUR +0.2 bn). In particular:

- the gross bad loan exposure, amounting to EUR 1.4 bn, was down from 30 September 2023 (amounting to EUR 1.5 bn) and up slightly from 31 December 2022 (amounting to EUR 1.3 bn);
- the gross unlikely-to-pay loan exposure, amounting to EUR 2.0 bn, was slightly higher than at 30 September 2023 (amounting to EUR 1.9 bn) and essentially stable compared to 31 December 2022 (amounting to EUR 2.0 bn);
- the gross non-performing past due loan exposure, amounted to EUR 131.1 mln, down from EUR 158.0 mln as at 30 September 2023, but up from EUR 45.8 mln as at 31 December 2022.

As at 31 December 2023, the Group's **net exposure in terms of non-performing Loans to Customers** was equal to **EUR 1.8 bn**, substantially in line with both the levels recorded as at 30 September 2023 (amounting to EUR 1.8 bn) and the value as at 31 December 2022 (amounting to EUR 1.7 bn).

Loans to customers		Bad loans	Unlikely to pay	Non-performing Past due Loans	Total Non-performing loans to customers	Performing loans	Total
31 12 2023	Gross exposure	1,383.4	1,970.4	131.1	3,484.9	75,516.1	79,001.0
	Adjustments	941.6	741.3	28.4	1,711.3	474.1	2,185.4
	Net exposure	441.8	1,229.1	102.7	1,773.6	75,042.0	76,815.6
	Coverage ratio	68.1%	37.6%	21.7%	49.1%	0.6%	2.8%
	% on Loans to customers	0.6%	1.6%	0.1%	2.3%	97.7%	100.0%
30 09 2023	Gross exposure	1,523.3	1,899.6	158.0	3,580.9	76,695.8	80,276.7
	Adjustments	1,002.7	784.2	33.2	1,820.1	475.0	2,295.1
	Net exposure	520.6	1,115.4	124.8	1,760.8	76,220.8	77,981.6
	Coverage ratio	65.8%	41.3%	21.0%	50.8%	0.6%	2.9%
	% on Loans to customers	0.7%	1.4%	0.2%	2.3%	97.7%	100.0%
31 12 2022	Gross exposure	1,292.4	1,961.0	45.8	3,299.2	74,994.0	78,293.2
	Adjustments	841.2	736.3	10.4	1,587.9	440.0	2,027.9
	Net exposure	451.2	1,224.7	35.4	1,711.3	74,554.0	76,265.3
	Coverage ratio	65.1%	37.5%	22.7%	48.1%	0.6%	2.6%
	% on Loans to customers	0.6%	1.6%	0.0%	2.2%	97.8%	100.0%

Non-performing loan coverage ratio was 49.1% as at 31 December 2023. The reduction compared to 30 September 2023 (at 50.8%) is mainly due to the deconsolidation, in the fourth quarter of the portfolio of bad loans of the so-called "Mugello" project and to the model updates of the LGD parameter carried out in the last quarter of the year, which led to a decline in coverage ratio for impaired loans other than bad loans. The increase compared to the end of the previous year, when the coverage was 48.1%, is mainly attributable to bad loans (whose coverage goes from 65.1% as at 31 December 2022 to 68.1% as at 31 December 2023), due to the aforementioned updates of the LGD parameter, while the percentage of coverage of unlikely to pay was substantially stable (37.6% at 31 December 2023 compared to 37.5% at the end of the previous year) and that of non-performing past due loans was down slightly (21.7% as at 31 December 2023 compared to 22.7% at the end of the previous year).



Change in gross exposures

abs/%		Bad loans	Unlikely to pay	Non-performing past due exposures	Total Non-performing loans to customers	Performing loans	Total
Q/Q	abs.	(139.9)	70.8	(26.9)	(96.0)	(1,179.7)	(1,275.7)
	%	-9.2%	3.7%	-17.0%	-2.7%	-1.5%	-1.6%
Y/Y	abs.	91.0	9.4	85.3	185.7	522.1	707.8
	%	7.0%	0.5%	186.2%	5.6%	0.7%	0.9%

Changes in coverage ratios

		Bad loans	Unlikely to pay	Non-performing past due exposures	Total Non-performing loans to customers	Performing loans	Total
Q/Q		2.2%	-3.7%	0.7%	-1.7%	0.0%	-0.1%
Y/Y		3.0%	0.1%	-1.0%	1.0%	0.0%	0.2%



Other financial assets/liabilities

As at 31 December 2023, the Group's **Securities assets** amounted to **EUR 17.3 bn**, down compared to 30 September 2023 (EUR -1.0 bn) due to the decrease in financial assets held for trading (EUR -0.5 bn) relating to market making activities on government bonds and financial assets measured at fair value through other comprehensive income (EUR -1.0 bn) following maturities; on the other hand, the securities component valued at amortised cost was increased (EUR +0.5 bn) in respect of net purchases resulting from the aforementioned due dates. It should be noted that the market value of the securities included in Loans to customers and banks at amortised cost was equal to EUR 9,491.1 mln and EUR 614.3 mln (with implicit capital losses of around EUR 570.1 mln and EUR 67.6 mln respectively).

The aggregate is down compared with the figure recorded as at 31 December 2022 (EUR -1.1 bn). The decrease in financial assets measured at fair value through other comprehensive income (EUR -1.9 bn), following maturities occurring during the year, was in fact only partially offset by the increase in securities classified as loans to customers at amortised cost (EUR +1.0 bn), as a result of purchases of government securities.

On-balance-sheet financial liabilities held for trading were equal to **EUR 1.8 bn** as at 31 December 2023, down compared to 30 September 2023 (EUR 3.6 bn) and on the value recorded as at 31 December 2022 (EUR 2.6 bn).

As at 31 December 2023, the **Net position in derivatives**, a **positive EUR 1.4 bn**, was down compared to 30 September 2023 (positive position for EUR 1.6 bn) and compared to 31 December 2022 (positive position for EUR 1.7 bn).

Items	31 12 2023	30 09 2023	31 12 2022	Chg. Q/Q		Chg. Y/Y	
				Abs.	%	Abs.	%
Securities assets	17,276.9	18,323.3	18,393.6	(1,046.4)	-5.7%	(1,116.7)	-6.1%
<i>Financial assets held for trading</i>	3,810.6	4,317.8	3,962.9	(507.2)	-11.7%	(152.3)	-3.8%
<i>Other Financial assets mandatorily measured at fair value</i>	245.5	306.0	314.8	(60.5)	-19.8%	(69.3)	-22.0%
<i>Financial assets measured at fair value through other comprehensive income</i>	2,477.3	3,471.4	4,352.3	(994.1)	-28.6%	(1,875.0)	-43.1%
<i>Financial assets held for sale</i>	0.4	0.0	0.0	0.4	n.m.	0.4	n.m.
<i>Loans to customers measured at amortised cost</i>	10,061.2	9,555.9	9,086.2	505.3	5.3%	975.0	10.7%
<i>Loans to banks measured at amortised cost</i>	681.9	672.2	677.4	9.7	1.4%	4.5	0.7%
On-balance-sheet financial liabilities held for trading	(1,823.2)	(3,614.6)	(2,567.2)	1,791.4	-49.6%	744.0	-29.0%
Net positions in derivatives	1,414.6	1,628.9	1,690.7	(214.3)	-13.2%	(276.1)	-16.3%
Other financial assets and liabilities	16,868.3	16,337.6	17,517.1	530.7	3.2%	(648.8)	-3.7%

Items	31 12 2023		30 09 2023		31 12 2022	
	Securities assets	On-balance-sheet financial liabilities held for trading	Securities assets	On-balance-sheet financial liabilities held for trading	Securities assets	On-balance-sheet financial liabilities held for trading
Debt securities	16,677.9	-	17,691.8	-	17,800.5	-
Equity instruments and Units of UCITS	599.0	-	631.5	-	593.1	-
Loans	-	1,823.2	-	3,614.6	-	2,567.2
Total	17,276.9	1,823.2	18,323.3	3,614.6	18,393.6	2,567.2



Interbank position

As at 31 December 2023, the Group's **net interbank position** stood at **EUR 2.2 bn** in net loans, compared to a position of EUR 0.8 bn in loans as at 30 September 2023 and EUR 7.0 bn in funding as at 31 December 2022.

The change compared to the end of the previous year is mainly attributable to relations with central banks, against: (i) a reduction in funding (the maturities of the TLTRO tranches for a total of EUR 14 bn, in fact, were only in part balanced by access to MRO and LTRO auctions for EUR 7.5 bn), (ii) an increase in loans (following the higher balance recorded on demand deposits of EUR 1.4 bn).

Interbank balances							
	31 12 2023	30 09 2023	31 12 2022	Chg. Q/Q		Chg. Y/Y	
				Abs.	%	Abs.	%
Loans to banks	2,582.2	2,270.1	1,950.1	312.1	13.7%	632.1	32.4%
Deposits from banks	1,350.6	1,790.8	2,205.9	(440.2)	-24.6%	(855.3)	-38.8%
Demand deposits with banks (cash)	1,701.6	1,267.7	1,367.0	433.9	34.2%	334.6	24.5%
Net position with banks	2,933.2	1,747.0	1,111.2	1,186.2	67.9%	1,822.0	n.m.
Loans to central banks	526.8	522.6	628.1	4.2	0.8%	(101.3)	-16.1%
Deposits from central banks	13,148.2	13,105.6	19,176.9	42.6	0.3%	(6,028.7)	-31.4%
Demand deposits with Central banks (cash)	11,907.5	11,635.5	10,475.7	272.0	2.3%	1,431.8	13.7%
Net position with central banks	(713.9)	(947.5)	(8,073.1)	233.6	-24.7%	7,359.2	-91.2%
Net interbank position	2,219.3	799.5	(6,961.9)	1,419.8	n.m.	9,181.2	n.m.

As at the end of December 2023, the operating liquidity position showed an **unencumbered** Counterbalancing Capacity equal to approx. **EUR 29.8 bn**, up compared both to 30 September 2023 (EUR 28.1 bn) and to 31 December 2022 (EUR 25.5 bn).

Other assets

The item includes, inter alia, the tax credits originated as part of the concessions referred to in the "Cura Italia" and "Rilancio" Law Decrees (so-called Ecobonus and Sismabonus) for an amount of EUR 1,660.3 mln (EUR 738.2 mln as at 31 December 2022).



Shareholders' equity

As at 31 December 2023, the **Shareholders' equity of the Group and non-controlling interests** amounted to **EUR 10.0 bn**, an increase of EUR 1.2 bn compared to 30 September 2023, mainly due to the fourth quarter profit.

Compared to 31 December 2022, the shareholders' equity of the Group and non-controlling interests increased by EUR 2.1 bn, essentially attributable, also in this case, to the profit recorded in 2023.

Reclassified Consolidated Balance Sheet							
Equity	31 12 2023	30 09 2023	31 12 2022*	Chg Q/Q		Chg Y/Y	
				Abs.	%	Abs.	%
Group Net Equity	9,978.5	8,807.1	7,860.1	1,171.4	13.3%	2,118.4	27.0%
a) Valuation reserves	27.9	(15.8)	(26.9)	43.7	n.m.	54.8	n.m.
d) Reserves	445.3	440.8	611.9	4.5	1.0%	(166.6)	-27.2%
f) Share capital	7,453.5	7,453.5	7,453.5	-	0.0%	-	0.0%
h) Net profit (loss) for the year	2,051.8	928.6	(178.4)	1,123.2	n.m.	2,230.2	n.m.
Non-controlling interests	0.7	0.7	0.9	-	0.0%	(0.2)	-22.2%
Shareholders' equity of the Group and Non-controlling interests	9,979.2	8,807.8	7,861.0	1,171.4	13.3%	2,118.2	26.9%

* The balance sheet values as at 31 December 2022 were restated, compared to those published at the reporting date, following the retrospective application of the new IFRS 17 "Insurance contracts" and IFRS 9 "Financial instruments" by the insurance associates. For further details of the items affected, see the paragraph on Adoption of the accounting standards "IFRS 17 Insurance Contracts" and "IFRS 9 Financial Instruments" in the companies AXA MPS Assicurazioni Vita and AXA MPS Assicurazioni Danni, included in "Part A – Other matters" in the Notes to the Consolidated Financial Statements.



Capital adequacy

Regulatory capital and statutory requirements

As a result of the conclusion of the SREP conducted with reference to the figures as at 31 December 2021 and also taking into account the information received after that date, with the submission in December 2022 of the 2022 SREP Decision, the ECB asked the Parent Company to maintain, effective 1 January 2023, a consolidated TSCR level of 10.75%, which includes 8% as a Pillar 1 minimum requirement ("P1R") pursuant to art. 92 of the CRR and 2.75% as Pillar 2 additional requirement ("P2R"), which must be respected at least for 56.25% with CET1 and at least 75% with Tier 1.

With regard to Pillar II Capital Guidance (P2G), the ECB expects the Parent Company to adapt, on a consolidated basis, to a requirement of 2.50%, to be fully met with Common Equity Tier 1 capital in addition to the overall capital requirement (OCR). Failing to comply with this capital guideline is not, at any rate, equivalent to failing to comply with the capital requirements.

Lastly, it should be noted that as from 1 January 2019 the Capital Conservation Buffer has been 2.5%, and effective 1 January 2022 the Group is required to comply with the O-SII Buffer equal to 0.25%, having been identified by the Bank of Italy as a systemically important institution authorised in Italy for 2023 as well.

Accordingly, the Group must meet the following requirements at the consolidated level as at 31 December 2023:

- CET1 Ratio of 8.81%;
- Tier 1 Ratio of 10.83%;
- Total Capital Ratio of 13.52%.

These ratios include, in addition to the P2R, 2.5% for the Capital Conservation Buffer, 0.25% for the O-SII Buffer and 0.017% for the Countercyclical Capital Buffer²⁷.

Please note that for the 2022 SREP, the Parent Company received the 2023 SREP Decision, which does not contain significant changes to the quantitative prudential requirements of the 2022 SREP Decision, except for the Pillar II Capital Guidance. Specifically, it is indicated that the Parent Company must maintain, effective 1 January 2024, a consolidated TSCR level of 10.75%, unchanged compared to 2023, which includes 8% as a Pillar 1 minimum requirement pursuant to art. 92 of the CRR and 2.75% as Pillar 2 additional requirement, which must be respected at least for 56.25% with CET1 and at least 75% with Tier 1. Furthermore, with regard to P2G, the ECB expects BMPS to maintain, on a consolidated basis, a requirement of 1.15%, down significantly from the 2023 level of 2.50%, to be met entirely with Common Tier 1 capital in addition to the overall capital requirement.

It should also be noted that, as a result of the process carried out by the Bank of Italy for the identification of national systemically important institutions (O-SII) authorised in Italy for 2024, the MPS Group is no longer identified as O-SII and therefore, starting from 1 January 2024, it is no longer required to maintain a capital reserve for O-SIIs of 0.25%.

²⁷ Calculated considering the exposure as at 31 December 2023 in the various countries in which MPS Group operates and the requirements established by the competent national authorities.



As at **31 December 2023**, the Group's level of capital on a transitional basis was as shown in the following table:

Categories / Values	31 12 2023	31 12 2022	Chg. 31 12 2022	
			Abs.	%
OWN FUNDS				
Common Equity Tier 1 (CET1)	8,726.7	7,601.2	1,125.5	14.81%
Tier 1 (T1)	8,726.7	7,601.2	1,125.5	14.81%
Tier 2 (T2)	1,680.4	1,772.2	(91.8)	-5.18%
Total capital (TC)	10,407.1	9,373.4	1,033.7	11.03%
RISK-WEIGHTED ASSETS				
Credit and Counterparty Risk	36,047.9	33,013.9	3,034.0	9.19%
Credit valuation adjustment risk	398.2	497.1	(98.9)	-19.90%
Market risks	2,121.1	2,026.8	94.3	4.65%
Operational risk	9,531.9	10,148.4	(616.5)	-6.07%
Total risk-weighted assets	48,099.1	45,686.2	2,412.9	5.28%
CAPITAL RATIOS				
CET1 capital ratio	18.14%	16.64%	1.51%	
Tier1 capital ratio	18.14%	16.64%	1.51%	
Total capital ratio	21.64%	20.52%	1.12%	

Compared to 31 December 2022, the CET1 recorded an increase of EUR +1,126 mln.

This increase is mainly attributable to the inclusion of the result for the year at 31 December 2023, partly offset by removal of the impact neutralisation of IFRS 9 related to the first-time application of the accounting standard as envisaged by Regulation (EU) 2017/2935 (attributable to the filter reducing from 25% to 0%) and the zeroing of the related prudential filter relative to the Other Comprehensive Income Reserve on securities issued by governments or administrations.

The first-time application of IFRS 17 and IFRS 9 by the insurance associates had an overall almost nil effect on CET1, as the increase in the balance of the Other Comprehensive Income Reserve was offset by the reduction in the Profit Reserves and the increase in the value of equity investments and related deductions.

Tier 2 fell by EUR -92 mln compared to the end of December 2022, due for EUR -143 mln to the amortisation of Tier 2 subordinated instruments and for EUR +51 mln to the increase in the contribution to Tier 2 of the excess value adjustments over expected losses.

The Total Capital Ratio therefore reflects an overall increase in own funds of EUR +1,034 mln.

RWAs increased by EUR 2.4 bn. In particular, there was an increase in RWAs relating to credit and counterparty risk (EUR 3.0 bn), mainly due to the increase in AIRB receivables due to the revision of internal models. There was also a significant reduction in operational risks (EUR -0.6 bn), a slight decrease in CVA risk, while market risks increased slightly.

With regard to capital ratios, the CET1 capital ratio stood at 18.14% as at 31 December 2023 (compared to 16.64% as at 31 December 2022) and the Total capital ratio was 21.64% (compared to 20.52% as at 31 December 2022).

As at 31 December 2023, the Parent Company, on a consolidated basis, meets all capital requirements, including those related to the P2G.

As at 31 December 2023 the Group, on a transitional basis, has a 6.96% leverage ratio, higher than the regulatory minimum of 3%.



MREL Capacity

Pursuant to art. 45 of Directive 2014/59/EU, as amended, banks must at all times respect a minimum own funds and eligible liabilities (MREL) requirement in order to ensure that, in the event of application of the bail-in, they have sufficient liabilities to absorb losses and to ensure compliance with the Tier 1 Capital requirement envisaged for authorisation to carry out banking activities, as well as to generate sufficient trust in the market.

As at 31 December 2023, the Group had values higher than the intermediate requirements set for 2023:

- an MREL capacity of 28.17% in terms of TREA and 10.81% in terms of LRE (“Leverage ratio exposure measure”); and
- an MREL subordination capacity of 21.93% in terms of TREA and 8.42% in terms of LRE.

With the letter of 20 December 2023, the Parent Company received from the Bank of Italy, in its capacity as Resolution Authority, the decision SRB/EES/2023RPC/103 of the Single Resolution Committee on the calculation of the minimum requirement for own funds and eligible liabilities (“2023 MREL Decision”).

Starting 1 January 2024, the Parent Company must comply, on a consolidated basis, with an MREL for 24.07% in terms of TREA, to which the Combined Capital Reserve Requirement (CBR) of 2.52% must be added,²⁸ as well as 6.05% in terms of LRE. To these must be added the additional subordinated MREL requirements, to be met with own funds and subordinated instruments, equal to 14.71% of TREA, to which the CBR must be added, and 6.05% of LRE.

In this regard, please note that the Group’s funding strategies aim to guarantee - as concerns public bond issue plans in particular - the constant fulfilment of MREL requirements.

²⁸ The CBR includes the Capital Conservation Buffer of 2.5% and the Countercyclical Capital Buffer of 0.017% as at 31 December 2023.



Tax position of Group

National Tax Consolidation of MPS Group

Since 2004, the Parent Company has adopted the National Tax Consolidation mechanism (articles 117 et seq of TUIR, Consolidated Tax Act). The scope of the MPS Group's tax consolidation as of 31 December 2023 included: Banca Monte dei Paschi di Siena S.p.A., Monte Paschi Fiduciaria S.p.A., Wise Dialog Bank S.p.A., Aiace Reoco S.r.l. in liquidation, MPS Tenimenti Poggio Bonelli and Chigi Saracini S.p.A.,

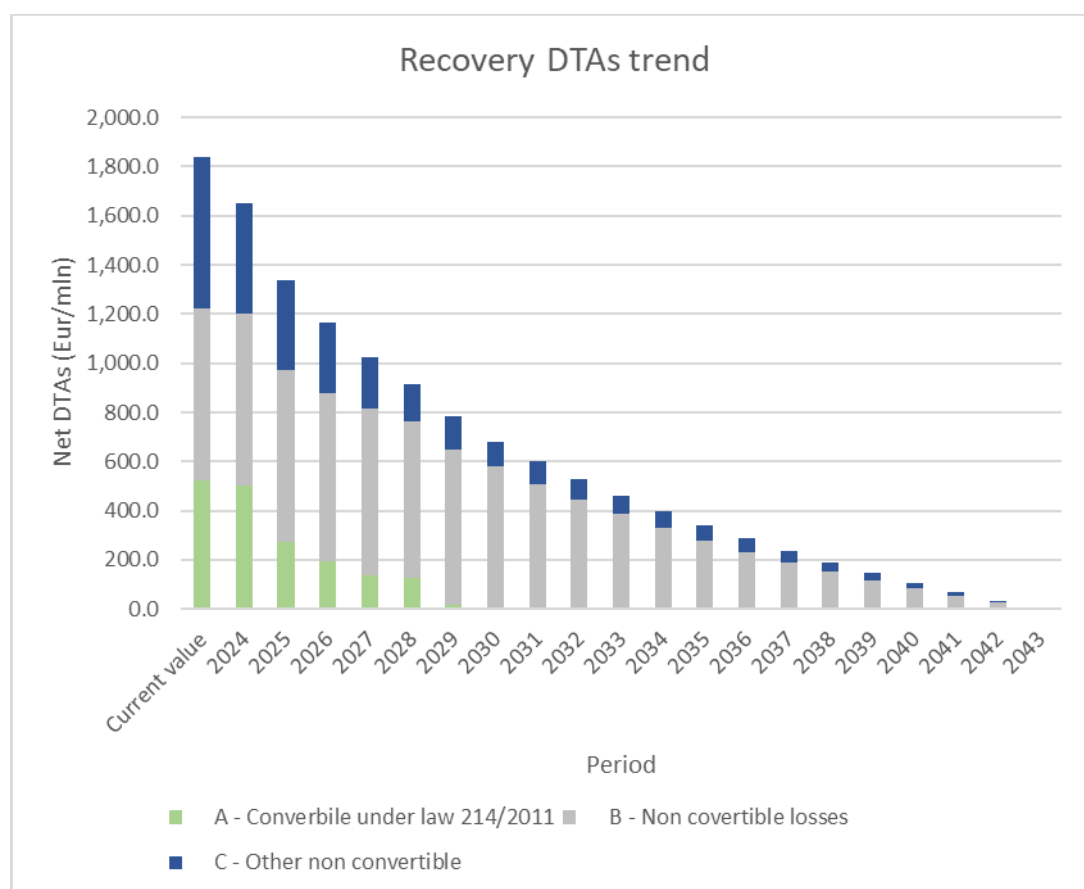
Net deferred tax assets (net DTAs)

As at 31 December 2023, the Group's situation was as follows:

DTAs	Recognised on balance sheet as at 31 12 2023	%	Not Recognised on balance sheet as at 31 12 2023	%	Total potential DTAs as at 31 12 2023	%
Convertible DTAs law 214/211	522.7	28.4%	0.0	0.0%	522.7	11.8%
Non convertible tax losses	686.7	37.3%	2,574.7	100.0%	3,261.4	73.8%
Excess ACE (Allowance for Corporate Equity)	15.0	0.8%	0.0	0.0%	15.0	0.3%
Other non-convertible	618.2	33.5%	1.1	0.0%	619.2	14.0%
	1,842.5	100.0%	2,575.7	100.0%	4,418.3	100.0%

The values of deferred tax assets are presented net of offsetting deferred tax liabilities

The following timing is estimated for the recovery of the aforementioned DTAs recognised in financial statements:



The amount of DTAs recognised in financial statements in general may be subject to fluctuations, even substantial, between one financial year and the next, since the related measurement process is based also on variables often



outside the company's control, each of which is capable of significantly influencing future taxable income, which is the extent to which the DTAs can be recognised.

This applies in particular to the MPS Group, which has significant tax losses that were accumulated in previous financial years and at the same time has made equally significant increases in its capital endowment (share capital increases) which entitled, until the current financial year (due to the repeal provided for by art. 5 of Italian Legislative Decree No. 216 of 30 December 2023, effective as of 2024), to the corporate capitalisation incentive relief (formerly ACE).

The combination of these two conditions, in the years when the ACE legislation was in force, was an important factor behind the volatility in the amount of DTAs recognised by the MPS Group in recent financial years. From an accounting perspective, the effect on DTAs from losses must be accounted for with immediate effect, since these DTAs have already accrued, while the effect of the ACE had to be accounted for in each year in which the relief accrued. In addition, with particular regard to the subjects adhering to the group taxation regime, for the purposes of offsetting against any positive taxable income, the tax regulations imposed the priority use of ACE deductions in each year, with respect to previous tax losses. This, in effect, made the amount of DTAs from tax losses recognisable in the financial statements dependent on ACE deductions, both accrued and unused (so-called excess) and in the case of future accrual. As a result, any amendment of the ACE rules, which had changed the prospective deductions, would have led to a fluctuation in the value of DTAs from tax losses that could be recognised in the balance sheet. Consistently, the repeal of the ACE regulations, set forth in art. 5 of Italian Legislative Decree no. 216 of 30 December 2023 with effect from 2024, also generated an impact on the financial statements as at 31 December 2023, recording a significant increase in DTAs from consolidated tax losses in the amount of EUR 545.2 mln, precisely by virtue of the increase in the prospects for the use of tax losses to offset future taxable income.

Another factor that determines the volatility of the amount of DTAs recognised is the revision of the profit forecasts, which obviously must take into account the general economic scenario, in addition to the Group's internal situation.

Estimated taxable income for future financial years, for the purposes of the probability test, was calculated by assuming that the Group's projected 2024-2026 result of operations would be achieved in 2024 within the framework of the income forecasts estimated in the 2022-2026 Business Plan, approved by the Parent Company's Board of Directors on 22 June 2022. As a matter of prudence, the (growing) results of operations of 2025 and 2026 outlined in the aforementioned Business Plan were not considered for the probability test; furthermore, for the estimate of taxable income for the financial years after 2026, a growth was assumed for each year starting from 2027 compared to the results of operation forecast for the immediately previous financial year.

For further information, please refer to paragraph 11.8 Other information of the Notes to the consolidated financial statements - Part B - Information on the balance sheet in these financial statements.

Prior years' tax losses and ACE benefit

Prior years' tax losses from MPS tax consolidation amounted to EUR 12.1 bn (of which only EUR 2.5 bn with DTA recognised). The ACE benefit accrued up to 31 December 2023 was used in full to offset taxable income, with the exception of a surplus of approximately EUR 430 mln that can be carried forward by the Parent Company for the purposes of the IRES surcharge.

DTA fee

With specific reference to convertible DTAs pursuant to Italian Law 214/2011, the companies participating in the tax consolidation of MPS Group have chosen, through the Parent Company, the system envisaged by art. 11 of Italian Law Decree 59/2016.

Note that, against the commitment to pay the related annual fee, due until 2030, the participation of the MPS Group in the option pursuant to art. 11 of Italian Law Decree 59/2016 guarantees the right to convert DTAs into tax credit referred to in Italian Law 214/2011 when the conditions envisaged by the law are met. The base of the fee, for each financial year in which it is due and with reference to the data in the financial statements of previous year, is composed by the algebraic sum of (i) in positive, the convertible DTAs recorded in the balance sheet assets (net of corresponding DTAs recorded in 2007 financial statements) and the total amount of DTAs converted into tax credit in the previous years, and (ii) in negative, the taxes paid according to the Decree published for this purpose.

The amount of the fee paid in 2023 was approximately EUR 63 mln. A slow decrease in the amount due is estimated for subsequent financial years until 2030, because the positive elements of the tax base, mainly consisting of significant amount of DTAs transformed into tax credit in prior years, will decrease only by the reversal of the



remaining convertible DTAs, and the negative elements will increase given that the Group will be in a position of paying relatively low taxes, given the large amount of past tax losses, which can be used to offset future taxable income.

Extraordinary tax on the increase in net interest income

Art. 26 of Italian Law Decree no. 104 of 10 August 2023 (converted into Law no. 136 of 9 October 2023) introduced an extraordinary tax (one-off) to be borne by banks calculated on the increase in the interest margin (the so-called “Windfall tax on excess profit”). This tax is determined by applying a rate of 40% on the amount of the interest margin for the year 2023 which exceeds the interest margin for the year 2021 by at least 10%, however the amount due may not exceed one 0.26% share of RWAs as at 31 December 2022 (the “cap”). The rule further provides that, in lieu of paying the tax, banks may, upon approval of the 2023 financial statements, allocate an amount not less than 2.5 times the tax due to a non-distributable reserve identified for this purpose. For the Group banks to which the aforementioned provisions apply (Banca MPS and Banca Widiba), the total tax due is approximately EUR 125 mln (amount determined due to the applicability of the cap provided for by the provision), which, if not paid, results in the set up of a non-distributable reserve (total in the two companies) of no less than approximately EUR 313 million.

Considering that the option of not paying the tax and, consequently, of allocating the legal amount to a non-distributable reserve, remains subject to the approval of the Shareholders’ Meeting, also following the directions already expressed at the time of approval of the quarterly report as at 30 September 2023 by the Board of Directors, the Group’s banks did not recognise the tax due in the income statement, given the proposal made to the Shareholders’ Meeting about allocating a portion of the profit for the year 2023 to the set-up of the non-distributable reserve provided for by the above-mentioned regulations. The amount of the non-distributable reserve to be set up is equal to approximately EUR 313 mln (of which EUR 308.9 mln pertaining to Banca MPS and EUR 3.7 mln pertaining to Banca Widiba).

It should be noted that in the event that the reserve is subsequently used for the distribution of profits, the regulations provide that the tax due, increased by the interest rate on deposits with the ECB as of 30 June 2024, must be paid within 30 days of the relevant resolution of the shareholders’ meeting.

Pillar 2 – Global Minimum Tax

In implementing the principles set forth in Italian Law no. 111 of 9 August 2023, Italian Legislative Decree no. 209 of 27 December 2023 has transposed into Italian law the Council Directive (EU) 2022/2523 of 15 December 2022, aimed at ensuring a minimum global level of taxation for large multinational groups of companies and large-scale national groups in the Union, according to the common approach shared at international level.

The Directive transposes the main core of the global agreement on the so-called Second Pillar (Pillar 2) achieved in the OECD/G20, which aims to introduce a minimum effective taxation of multinational companies at global level (“*global minimum tax*”, also GMT), providing for a coordinated system of rules (so-called Model Rules or GloBE Rules) capable of ensuring that large groups of companies are subject to a minimum tax level of at least 15% in relation to each of the countries in which these groups operate and generate income. The purpose is to achieve a level of competitive parity among companies at global level, by curbing tax competition through a race to the bottom in tax rates and, thus, promoting efficient investment and business location decisions.

In order to guarantee a minimum level of taxation of multinational or national groups of companies, the aforementioned Legislative Decree 209/2023, borrowing the system of rules adopted by the OECD (albeit with certain amendments aimed at ensuring compatibility with EU law), orders additional taxation to be levied in Italy through:

- a) the “*Income Inclusion Rule*”, IIR, minimum integrative tax, payable by the Parent Company or ultimate controlling entity, residing in Italy, of a multinational group or a domestic group, in relation to the companies belonging to the group, that are subject to low taxation in the country where they are located; and
- b) the “*Undertaxed Profits Rule*”, UTPR, minimum supplementary tax, due by one or more companies, residing in Italy, of the multinational group in relation to those companies of the group that are located in low-tax countries only when the equivalent minimum supplementary tax has not been charged, in whole or in part, in other countries;
- c) the “*Qualified Domestic Minimum Top-Up Tax*”, QDMTT, minimum national tax, due in relation to all the companies of a multinational or national group subject to low taxation located in Italy.



The regulations apply to groups with annual revenues of at least EUR 750 mln (threshold that must be exceeded in at least two of the four financial years immediately prior to the one considered), with effect from 1 January 2024.

The MPS Group, being a multinational Group (with Banca MPS as parent company, or UPE “Ultimate Parent Company”), integrates the subjective prerequisites for the application of the new tax, therefore it is potentially impacted by said tax, in particular, having regard, besides Italy, to the additional jurisdictions where subsidiaries or branches are present, as listed here: France, Ireland and China. Given that the implementation of the law by the Italian legislator is not yet complete (as it is subject to the issue of secondary legislation aimed at regulating certain application aspects), also considering that the rules concerning the “*global minimum tax*” have been duly acknowledged by both France and Ireland, but not yet by China, based on the preliminary analyses carried out, it is believed that the potential impacts of the new tax on the Group’s equity and economic situation can be considered insignificant, as it can be highlighted, in a nutshell, that:

- i) the minimum rate of the Global Minimum Tax (15%) is significantly lower than the taxation ordinarily applicable in both Italy and France,
- ii) with reference to the branch located in China (Shanghai), the Parent Company, also in consideration of the closure activities currently underway (whose conclusion is scheduled by the end of 2024), could benefit from the “*de minimis exclusion*”,
- iii) the applicability of the new tax, on the other hand, appears to be tangible with reference to the only company of the Group located in Ireland (Axa MPS Financial DAC Ltd, a company that can be classified, according to the Pillar regulation, as “jointly controlled”, in which Banca MPS holds an indirect interest equal to 50% of the capital), for which, however, it is reasonable to assume a tax due in Ireland (QDMTT, “Qualified Domestic Minimum Top-Up Tax” - minimum national tax) which could actually neutralise the minimum supplementary tax due in Italy by the Parent Company BMPS.

The economic impact of the QDMTT, “*Qualified Domestic Minimum Top-Up Tax*” due in Ireland, estimated to be an insignificant amount, will be reflected indirectly in item “250. Gains (losses) on equity investments” in the consolidated income statement as the equity investment is measured using the equity method.

Considering that the regulation in question needs to be completed by the expected implementing decrees, as well as a complex coordination with the transposition rules adopted by the other foreign jurisdictions of interest, it cannot be excluded that the analyses carried out and the estimates made may change accordingly.

Current Tax Assets

As at 31 December 2023, the Group’s current tax assets amounted to EUR 308 mln. Part of this amount, namely EUR 188 mln (amount net of value adjustments of EUR 17 mln), is represented by tax credit that have already been claimed for refund, therefore, generating interest to the extent set forth in the specific applicable tax law provisions (for income tax at 2% annually). Other current tax assets, equal to EUR 120 mln, are represented by tax credit (non-interest bearing) available for use in offsetting against future tax liabilities and include the IRAP receivables generated by the transformation of ACE surpluses, from surplus payments on account or payments on account, for a total of EUR 98 mln (amount net of the current IRAP payable of EUR 51 mln), tax credits originating from the transformation of DTAs (pursuant to Law 2014/2011 and art. 55 Italian Law Decree 18/2020), amounting to EUR 17 mln, as well as IRES credits generated by excess payments on balance or payments on account, totalling EUR 5 mln (amount net of current IRES debt of EUR 15 mln).

VAT Group

The 2023 financial year was the fifth year of validity of the “MPS VAT Group”. With reference to the 2023 tax period, the MPS VAT Group includes the following 9 companies: Banca Monte dei Paschi di Siena S.p.A., Cirene Finance S.r.l., G. Imm. Astor S.r.l., Monte dei Paschi di Siena Leasing & Factoring S.p.A. (until 24 April 2023, the date on which the merger by incorporation of the company into the Parent Company was finalised), Monte Paschi Fiduciaria S.p.A., MPS Capital Services Banca per le Imprese S.p.A. (until 29 May 2023, the date on which the merger by incorporation of the company into the Parent Company was finalised), MPS Covered Bond S.r.l., MPS Covered Bond 2 S.r.l., Wise Dialog Bank S.p.A.

These companies constitute a single entity for VAT purposes, attributable to the “representative” (the Parent Company), with the attribution of a single VAT number. As a result:

- all transactions between these companies are, as a rule, not relevant for VAT purposes, although some transactions between separate activities continues to be relevant;



- all legal obligations (settlement, payment, annual VAT return, and periodic communications) as well as the administrative (and criminal) liability are centralised within the Parent Company.

With regard to liability profiles, the other parties belonging to the VAT Group, on the other hand, are jointly and severally liable for the payment of tax, interest and penalties, regardless of the party to which any alleged violation is specifically attributable.

Tax disputes

For further information relative to tax disputes, please refer to Section E of the Notes to the consolidated financial statements - 1.5 Operational Risks, “Main types of legal, employment law and tax risks”.



Research, Development and Innovation

The Group's Research, Development and Innovation activity is constantly focused on finding customer-oriented solutions with the aim of identifying breakthrough technologies and systems to improve processes and services through the adoption of increasingly efficient management and interaction models.

The potential offered by technological innovation, favouring the automation of the customer-bank transactions from a self-service perspective, requires a continuous review of internal processes with the consequent management of a real "innovation strategy". In this context, the Information Technology function is particularly important, as its objectives are the implementation of IT projects for the Business and the simultaneous governance of the evolution of architecture and technological innovation.

The Information Technology activities are oriented towards the maintenance and development of the Information System with a view to centralizing IT services at Group level, and are carried out in line with the Group strategies and with the recommendations issued by the Supervisory Bodies.

During 2023, the Information Technology Function has carried out all the preparatory developments for the implementation of the 2022-2026 Group Strategic Plan.

As of 31 December 2023 software recognised under intangible assets amounted to a total of EUR 169.2 mln related to the following project:

- digitalization (EUR 80.8 mln);
- technological renewal and licensing (EUR 44.1 mln);
- business development (EUR 38.4 mln);
- other (EUR 5.9 mln).

Outsourced services

The most important contracts for services performed in outsourcing by companies outside the Group are reported below.

Fruendo and Accenture (back-office services)

The outsourcing activity is governed, starting from 26 July 2021²⁹ in a single *master service agreement* (MSA), concerning the provision of *back office* services provided by Fruendo in favour of the Parent Company and its subsidiaries.

The services covered by the MSA concern: Branch Assistance; Network Back Office (checks, bank transfers, F24 proxies, CC settlements, document centre, advances on invoices, commercial receipts, bills, transferability, other centralised services); Credit (litigation back office, centralised guarantee management, back-office intermediaries and third-party networks, other centralised credit services); Management of Payment Documents (payable cycle, condominiums and rents, utilities and taxes); Banking investigations, Logistics (post office, clerks and doormen, car fleet); Payment and Correspondent Services (foreign portfolio, correspondents, payment cards, collections, mortgages, inheritance, various services); Group Company Services (Leasing and Factoring back office; Financial Advisors back office, Transferability, Collections and other Widiba Operations).

Following the mergers by incorporation of the companies MPS Leasing & Factoring and MPS Capital Services Banca per le Imprese, in April and May 2023, respectively, the services provided by Fruendo for the aforementioned companies were included within the scope of services provided for the Parent Company MPS.

The MSA expires on 31 December 2031. The Parent Company has the right to withdraw with eighteen months' notice, to be communicated in the first two months of 2023 (option not exercised), 2024 and 2028, incurring a penalty.

The fees for the services provided by Fruendo are fixed for the entire contract duration and decrease over time to take into account efficiency and expected technology developments.

²⁹ The original agreement signed on 29 December 2013 with effect from 1 January 2014 between the Parent Company and respectively Fruendo and Accenture, from 26 July 2021 is governed by a single MSA that combines the two previous ones following the acquisition of control of Fruendo by Accenture and subsequent transfer of the latter's contract to Fruendo.



Nexi (payment services)

ATM management for the MPS Group. The outsourcing agreement from 2009 and amended over time concerns the services relating to managing ATM equipment: in particular, maintenance services for ATM terminals, warehouse management, ATM activation and commissioning services and support for maintenance, Help Desk and monitoring.

Provision of credit card management services. The MPS Group's credit card management agreement dates back to September 2012 and has been subject to additions and amendments over time. The services provided by Nexi concern a full outsourcing of the credit card issue and management process.

Interbank Corporate Banking. The agreement for the Interbank Corporate Banking Service - CBI Global Banking Web - was signed on 30 June 2011 and subsequently amended and integrated. The service consists of all IT, technical and operational structures designed to provide the functionalities envisaged in the ABI provisions through the CBI Consortium, in particular:

- payment/collection management (SEPA compliant);
- document, reporting and reconciliation management.

The service establishes a direct channel between the Group's banks and their customers and allows users to:

- receive information relating to the relationships with their banks;
- forward the electronic instructions to the recipient banks.

Prepaid cards. The contract was signed in August 2019 and relates to the outsourcing of the management of Business and Consumer "international" prepaid cards, including IT and Back Office services.

Payment services on international circuits referring to international debit cards. The purpose of the agreement signed in December 2020 is the performance by Nexi Payments S.p.A., as licensee for the payment circuits, of the activities related to the issue and management of payment services relating to debit cards with international circuits.



Main risks and uncertainties

Risk identification

The Group's main risks and uncertainties are credit risk, market risk (including interest rate risk on banking book) and operational risk (including legal risk and IT risk), business risk and strategic risk, as well as liquidity risk for the funding risk and short-term liquidity risk components.

There are also other risks and uncertainties represented by regulatory stress test exercises, Supervisory Authority assessments, reputational risk, risks related to economic and political context, real estate sector's risks and climate and environmental risks.

The risks classified as high as well as other risks to which the Group is exposed are described in more detail below.

Credit risk

Lending activity represents the Group's core business and the main risk component, representing approximately 50% of the Group's total RWAs (and more than half of the Pillar 1 RWAs). The classification as high risk remained unchanged compared to the previous year, especially in relation to the current macroeconomic context, which could lead to a significant increase in default flows in the next three years.

In general, the growth in inflation and interest rates observed in the course of 2023, as well as international geopolitical tensions, arising from the continuing Russia-Ukraine conflict and escalating tensions in the Middle East, with negative security and cost impacts on international trade, could have a negative impact on the ability of the Group's customers to meet their obligations and hence cause a significant deterioration in the credit quality of the Parent Company and/or the Group, with possible negative effects on activities and the financial situation of the Parent Company and/or the Group.

In addition, possible change in real estate ratios could lead to a reduction in value of mortgage guarantees against the loans provided, which, together with the presence of counterparties' default events also due to the change in macroeconomic scenario, would cause the necessity of higher provisions with negative impacts on the Group's results. Similarly, a deterioration in real estate sector performance could result in a decrease in the solvency of counterparties operating in construction, leasing and/or the purchase and sale of real estate which, impacting sale and/or lease prices, influences the economic and financial situations of the financed companies, triggering a deterioration in the credit quality of the Group's loan portfolio.

In this context, in 2023 the Group continued to support the companies most impacted by the deterioration of the macroeconomic scenario, by providing new loans and applying forbearance measures, and continued to monitor companies operating in the real estate sector, while on non-performing loans, activities continue in order to limit the stock of NPLs.

Market risk

Market risk remains a significant risk to which the Group is exposed given the potential volatility of the underlying variables, in a general context of uncertainty characterised by the continuation of the war in Ukraine and by adverse geopolitical developments, with new conflicts taking place in the Middle East, by a declining inflation rate but which has not yet reached the ECB's target rate and by the continuation of restrictive monetary policies pending more accommodating interventions already incorporated in the market variables, with a falling rate curve especially in the medium-long term.

In particular, the reference to market risk is attributable to the sovereign exposures of both the trading book and the banking book, although the trend during the year, confirmed on the trading book and banking book component in the FVOCI (Fair Value Through Other Comprehensive Income), showed a decrease in overall exposures on these segments. The points of attention include the exposure and concentration in Italian government bonds in terms of issuer risk, for positions mainly classified at amortised cost and the portfolio's relative vulnerability to unfavourable changes in market conditions, particularly on interest rates and Italy's credit spread, regarding securities in FVOCI.

In the assessment carried out, the prospective effects on the capital requirements regarding the trading portfolio were taken into consideration, due to the entry into force in 2025 of the new method for calculating capital requirements on market risks (Fundamental Review of the Trading Book). With regard to the interest rate risk of the banking book, it should be noted that the profitability of the banking system, and therefore also of the Group, through the interest margin, has significantly increased starting from the second half of 2022 as a result of the



substantial increases in the rates operated by the ECB with positive effects also on capital ratios. As a result, any reductions in the reference rates could result in significant reductions in profitability. The management of interest rate risk, given the significant impacts on the income and capital position of banks, represents one of the priorities for the Supervisory Authority.

The recent forecasts outlined by the ECB for the years to come show the inflation falling towards the 2% target and some uncertainty over economic growth: this scenario is prompting banks to closely monitor the interest rate risk of their banking book and to adopt appropriate measures for an effective management.

The good positioning of the Group during the phase of rising interest rates brought a significant benefit to the interest margin: exposure to interest rate risk was then gradually reduced both in terms of changes in the margin in the short term and in the economic value of the capital in the medium/long term.

This strategy has enabled the Group to manage the risks associated with interest rate trends, optimising returns and preserving the value of capital in the long term.

The expectation of a rate cut in the first half of 2024 prompted the Group to launch a number of actions aimed at preserving the interest margin while taking action on the hedging of commercial assets and securitised liabilities.

Operational risk

Operational risk is defined as the risk of incurring losses deriving from the inadequacy or the failure of processes, human resources, and internal systems, or from external events, including legal, conduct and IT/security risk. The classification as a high risk remained unchanged from the previous year, mainly on the basis of legal disputes concerning: i) the capital increases – for which, following the recent rulings in favour of the Bank, the uncertainties concern in particular the criminal proceedings 33714/16 regarding false corporate communications relating to the 2012-2014 financial statements and the half-yearly report for 2015 and ii) disposals of Non-Performing Loans – for which the uncertainties are related to the outcome of the disputes still pending for alleged violations of contractual clauses (Representations & Warranties).

In consideration of the centrality of the Information System and the technological innovations supporting the Group's strategic plan, among the other components of operational risk, the latter pays particular attention to ICT and security risk, also due to the evolution of the regulatory context, technological developments and uncertainties linked to the continuous changes in the landscape of external threats. These risks are managed through a specific framework and by activating on-going monitoring and mitigation actions on specific risk areas. These interventions resulted in the strengthening of the access authentication system, involved the training and awareness-raising of personnel on cyber risk and enhancement of the platforms for detecting and blocking threats routed through the network. The greatest focus on IT and security risk is also given within the context of the European Banking Supervision, a context in which the ECB has launched a thematic stress test exercise with the aim of verifying the resilience of Significant Institutions to a plausible violation event of cybersecurity.

Business and strategic risk

Business and strategic risk is defined as current and/or prospective risk of incurring unforeseen losses generated by high business volatility (business risk), incorrect strategic decisions and/or low response to changes in the competitive environment (strategic risk).

Although, at the moment, the profitability indicators turned out better than expected in the 2022-2026 Plan, the rapid evolution of the economic and technological context represents a significant challenge for the Group and its ability to effectively develop the current business model while maintaining adequate recurring returns and ensuring long-term sustainability, even in a substantially different environment, as well as maintaining adequate levels of capital.

In this scenario, the Group analyses and reviews its strategic initiatives to respond to the changes underway and the expected challenges.

Funding risk and liquidity risk

In general, during the reporting financial year, the Group's liquidity profile remained at very strong levels.

With regard to funding risk, the sustainability of the funding profile (understood as the ability to finance banking activities with stable resources) remains high, as evidenced by the levels of medium/long-term liquidity indicators.



With reference to short-term liquidity risk, after experiencing liquidity stress in the past, the Group has maintained, in recent years, short-term liquidity indicators at very high levels, even after maturities, in June and September 2023, long-term refinancing operations with the ECB (TLTRO) in the amount of EUR 14 bn, partially offset by new short-term auction operations with the ECB totalling EUR 7.5 bn (EUR 6 bn MRO and EUR 1.5 bn LTRO), therefore the total amount of debts owed to the ECB stood at EUR 13 bn as of 31 December 2023.

Due to its specific nature, liquidity risk continues to be high as “fast-moving”, sudden systematic or idiosyncratic crises may develop, with immediate and strong repercussions on both customer behaviour and market access.

Other risks and uncertainties

Risks associated with regulatory stress test

As part of prudential supervisory activities, the ECB, in cooperation with the EBA and the other competent Supervisory Authorities, performs periodic stress tests on supervised banks in order to check bank resilience with respect to baseline and adverse macroeconomic scenarios. The impact of these tests depends on assessment methodologies, stress scenarios and the outcome of the quality assurance activities taken as a reference by the Supervisory Authorities. The MPS Group is therefore exposed to the uncertainties arising from the outcome of these exercises, consisting of the possibility of incurring a potential tightening of the capital requirements to be met, if the results bring to light particular Group vulnerability to the stress scenarios employed by the Supervisory Authorities.

Risks associated with audits by Supervisory Authorities

The Group is exposed to the risk that following assessments of the Supervisory Authorities, procedural gaps could be identified implying the need to adopt organisational measures and strengthen the oversight mechanisms aimed at making up for such gaps. Any inadequacy of the corrective actions and the remediation plans undertaken by the Bank to incorporate any Supervisory Authority recommendations could have significant negative effects on the Group's profit and loss, financial position and/or cash flows and possible penalty proceedings, including bans, with resulting reputational impacts.

Reputational risk

The reputational profile of the Group is strengthened in the perception of multiple stakeholders. In particular, the improvement in the perception of Regulators and Rating Agencies reflects an acknowledgement of the Group's ability to meet its commitments and greater confidence in the sustainability of the business plan's objectives. However, there remain areas of uncertainty related to the outcome of some pending proceedings on past events, which, in the event of negative developments, could lead to new media exposure.

Risks related to the economic-political context

The Group's results are influenced by the general economic context and the financial market trend and, in particular, the economic performance of Italy as the country in which the Group almost exclusively operates.

The worsening of the global cyclical phase in a context of high uncertainty, fuelled by the continuation of the war in Ukraine, and, more recently, by the Israeli-Palestinian conflict and tensions in the Suez Canal, affects international and domestic growth prospects with impacts on the Group's business trends. A possible escalation of ongoing conflicts, with repercussions on energy markets and trade channels, represents a risk for the ongoing global inflation moderating process. Central banks intervened in 2023 to counter high inflation by raising interest rates and discounting asset purchases; however, maintaining a restrictive monetary stance gradually dampened demand. A slower price correction could force central banks to keep key interest rates at high levels for longer than expected, which would further slow down the economy and fuel financial market tensions. The friction between the US and China in the Pacific, the slowdown in world trade and the lower dynamism of the Chinese economy affected by the crisis in the domestic real estate market, increase further uncertainty on the global economic scenario.

At the domestic level, an incomplete or delayed implementation of the measures provided for in the revision of the National Recovery and Resilience Plan (NRRP) could lead to less support for growth and not balance the effects of the monetary tightening on domestic demand. The required restriction on national fiscal policy, also in light of the political agreement between the 27 EU member states on the new Stability and Growth Pact, could weigh on household disposable income and corporate profits. At the same time, a budgetary policy perceived as



not fully in line with the goal of sustainability of public accounts, in a context of lower expected growth and increased interest expenses, could negatively affect the perception of Italy as a risk, fuelling the rise in the spread and further tightening funding conditions. If such risks result in stagnation or a recession in the Italian economy in the medium term, this could negatively affect the main banking aggregates and there could be potentially significant impacts on the economic and financial position of the Bank and the Group. In particular, for the banking sector, there could be a decline in demand for credit, a decrease in customer funding primarily with reference to businesses, a slowdown in ordinary banking activity, a deterioration in the loan portfolio with a simultaneous increase in non-performing loans and situations of insolvency, a deterioration in revenues and increase in adjustments to receivables, with negative effects on the Group's business and economic, financial and asset situation. New inflationary pressures could also lead to an increase in operating costs.

Lastly, note that any significant deviations between the actual macroeconomic dynamics and those assumed as the basis for the 2022-2026 Business Plan could have an impact on the Group's operating results and prospective economic, asset and/or financial position.

Risks associated with the performance of the real estate sector

The Group is exposed to the risk that negative changes in the real estate sector may have a negative impact on the Group's profit and loss and financial position. The Group is exposed to real estate sector risk, not only because of the collateral guarantees acquired in credit exposures, also due to the investments directly held in owned properties, as any deterioration of the real estate market could result in a different determination of the value of owned properties and in the future result in the need for significant value adjustments on such properties.

Climate-related and environmental risks

The Group is exposed to risks linked to climate change which include i) physical risk, or the risk that extreme natural events (acute physical risk) or gradually changing climate (chronic physical risk) could cause direct or indirect material damage, a decline in productivity and production chain stoppage, with a negative impact on the capacity of households and businesses to meet their financial commitments as well as on the value of the collateral provided and ii) transition risk deriving from potential losses that a party may incur, directly or indirectly, due to the process of adaptation to a "more sustainable low-carbon economy".

Furthermore, physical and transition risks may cause losses for the Group deriving directly or indirectly from legal actions or generate reputational damage if the entity is associated with adverse environmental effects.

For further details, please refer to the contents of the "2023 Consolidated Non-Financial Statement".

Additional elements - including quantitative information - on the risk factors typical of the Group's activities are contained in Part E of the Notes to the consolidated financial statements, to which reference is made.



Financial risks and hedging-related policies

The financial risks to which the Group is exposed are credit risk, trading book market risk, interest rate risk of the banking book, exchange rate risk and liquidity risk.

Credit Risk Management

The advanced internal rating-based (AIRB) approach, based on internal ratings, have been used for some time as part of the internal capital adequacy assessment process (ICAAP). More specifically, the Group has adopted this approach (AIRB) starting with the 2008 Supervisory Reports and is currently authorised to use internal estimates of PD, LGD and EAD on Banca MPS and Widiba for the corporate portfolio and retail exposures. In particular, for the latter, on 8 January 2024, the Parent Company has obtained authorisation from the Supervisory Authority to roll-out the AIRB models, starting from the supervisory reports of 31 December 2023.

The latest update/implementations relating to internal models are detailed below:

- As from March 2023, the new regulatory models of PD, EAD and LGD - approved by the ECB through the Final Decision received in March 2023 - went into effect. These models, in addition to taking into account the new definition of default, ensure compliance with the regulatory requirements of the EBA/GL/2017/16 (effective from 2022).
- In 2023, a revision of the PD, LGD and EAD regulatory models (2024 Model Change) was also carried out with the aim of updating the estimates used and resolving the findings noted in by the Supervisory Authority on 2021 Model Change.

In general, these internal models, as well as for reporting purposes, are used in various management processes for the Group's operating purposes.

Credit quality is part of a monthly monitoring process aimed at ensuring compliance with the thresholds established both in the Risk Appetite Framework (RAF) and in the Credit Policies in order to ensure consistency on an ongoing basis between the Group's actual risk profile and the risk appetite decided ex-ante by the Board of Directors.

The annual RAF is formalised in the "Risk Appetite Statement" (RAS) approved by the Board of Directors and based on a set of key risk indicators (KRI) defined at Group, legal entity and business unit level, including indicators aimed at monitoring the expected concentration levels on large exposures and related parties and which also make it possible to monitor the maximum level of exposure and therefore of RWA on individual counterparties.

As part of the RAS, the risk management and measurement systems put in place by the Group allow continuous monitoring of the risk profile and periodic reporting to the Corporate Bodies, with the activation of appropriate escalation and remediation mechanisms in the event of breaches of the relevant thresholds.

The Group has always been committed to the acquisition of instruments for greater credit protection or the use of applications and techniques involving a reduction in credit risk. To this end, guarantees typical of banking business are acquired, when deemed necessary, i.e. mainly mortgages on real estate, collateral on securities as well as personal guarantees issued by guarantors. In general, the decision on the acquisition of a guarantee is based on the assessment of the customer's creditworthiness and on the characteristics of the transaction. After this analysis, it may be considered appropriate to raise additional collaterals for the purpose of risk mitigation, taking into account the presumed recoverable value offered by the collateral. On the other hand, with regard to the monitoring phase of the assets covered by the collateral, in particular real estate, the Group has a policy that establishes the amounts of the secured exposure and the age of the appraisal, beyond which the process of reappraisal of the assets is started. For exposures lower than the thresholds defined, the Group in any event conducts half-yearly monitoring of the property value based on market data.

For more information on this risk and related controls, please refer to Part E "Information on risks and related hedging policies", section 1.1 Credit risk of the Notes to the consolidated financial statements. Lastly, with reference to the quantitative aspects on the degree of exposure of the Group to credit risk and on the quality of credit, please refer to section A. Credit quality, Quantitative information of the aforementioned Part E and the information on "Non-performing exposures of loans to customers" included in the section "Reclassified balance sheet" included in this Report on Operations.

Management of market risk of the trading book

Market risk is the risk that the Bank will incur lower revenues than expected, impairment of balance sheet items or economic losses relating to the financial positions held, due to significant and adverse changes in market conditions and in particular in interest rates interest, share prices, exchange rates, commodities and related volatilities and



correlations (generic risk), or due to the occurrence of factors that compromise the issuer's ability to repay (default risk) or that in any case involve a change in solvency of the issuer itself (credit spread risk). Market risk occurs both in relation to the trading book, including financial instruments held for trading and the related derivative instruments, to the banking book, which includes financial assets and liabilities recorded differently from those making up the trading book.

Financial risk management monitoring activities, aimed at identifying the different types of risks, defining the methodologies for measuring them, controlling the limits at strategic level and the consistency of their operations with the assigned risk objectives/yield, is centralised in the Parent Company under the responsibility of the Risk Management Function.

The analysis of the risk relating to the trading portfolio is carried out through the use of both deterministic indicators, such as sensitivity to market risk factors, and probabilistic indicators such as VaR (Value at Risk), which is a measure of maximum potential loss of the portfolio within a certain time period and with a given level of confidence.

VaR for management purposes is calculated using the internal risk measurement model implemented by the aforementioned function in compliance with international best practices. The Group uses the standardised methodology in the area of market risks solely for reporting purposes. Periodically, information on market risks is transmitted to the Risk Management Committee and to the Top Bodies as part of the information flows with which Top Management and the Governing Bodies are informed about the Group's overall risk profile.

During 2023, the market risks of the Group's Regulatory Trading Book showed, in terms of VaR, a trend determined mainly by proprietary trading activities in the Credit Spread and Interest Rate segments (transactions in Italian government bonds and hedges via swaps and long futures) and, to a lesser extent, customer-driven activities in the Equity segment related to the structuring of bancassurance products.

The Group's VaR has remained at lower average levels compared to the previous year, by virtue of maintaining a general process of risk containment.

For more information on VAR measures and sensitivity analyses, please refer to section 1.2.1 Interest rate risk and price risk - Regulatory trading book in the Notes to the consolidated financial statements.

Management of interest rate risk of the banking book

The interest rate risk relating to the banking book derives mainly from the core activities carried out as an intermediary engaged in the process of transforming maturities. In particular, the issue of fixed-rate bonds, the disbursement of mortgages and commercial loans at a fixed rate and the funding through demand current accounts constitute a source of fair value interest rate risk, while floating-rate financial assets/liabilities constitute a source of cash flow interest rate risk.

The Group adopts an interest rate risk governance and management system known as the IRRBB Framework which avails itself of:

- a quantitative model, which provides the basis for monthly calculation of the exposure of the Group and the individual companies to interest rate risk in terms of risk indicators;
- risk monitoring processes, aimed at periodically verifying compliance with the operational limits (risk limits and risk tolerance) assigned to the Group overall and to the individual legal entities within the Risk Appetite Statement;
- risk control and management processes, geared toward bringing about adequate initiatives for optimising the risk profile and activating any necessary corrective actions in the case of exceptions from and/or misalignments with the IRRBB Strategy.

Within the model defined, the Finance, Treasury and Capital Management unit (FTCM) of the Parent Company is responsible for the operational management of the Group's overall interest rate and liquidity risk.

As part of the monitoring of interest rate risk, in particular the risk measures used internally are:

- the change in the expected 1-year interest margin following a parallel shock of the spot rate curves of +/- 100 bps. As at 31 December 2023, this sensitivity amounted to EUR +107.98 mln/EUR -122.5 mln;
- the change in the economic value as a result of a parallel shock of the spot rate curves of +/- 100 bps in relation to Own Funds (equity perspective). The amount of the economic value at risk stood at EUR -159.85 mln/EUR +78.88 mln at the end of 2023.



For further information, please refer to section 1.2.2 Interest rate risk and price risk - Banking book in the Notes to the consolidated financial statements.

Exchange rate risk management

Foreign exchange operations are mainly based on short-term trading, with the systematic balance of the transactions originated by the franchise and the retail banks which automatically feed into the Group's position. Among the Parent Company's foreign subsidiaries, only the Shanghai branch has remained active and has maintained modest forex positions exclusively originated by funds available for commercial purposes.

With regard to the methods for measuring and controlling the exchange rate risk generated by the trading book, please refer to the previous paragraph on Market risk of the trading book.

For further information, please refer to section 1.2.3 Exchange rate risk in the Notes to the consolidated financial statements.

Liquidity risk management

Liquidity risk is the risk that the Group may not be able to meet its payment commitments, certain or expected with reasonable certainty. Normally two forms of liquidity risk are identified: (i) the risk that the Group is not able, in the short term (liquidity) and/or in the long term (funding), to meet its payment commitments and obligations efficiently; (ii) the risk that the Group may not be able to liquidate an asset without incurring capital losses due to the limited size of the reference market and/or as a result of the timing with which the transaction has to be carried out.

Liquidity risk is managed and monitored as part of the Internal Liquidity Adequacy Assessment Process (ILAAP), which represents the process by which the Group identifies, measures, monitors, mitigates and reports its liquidity risk profile. As part of this process, the Group carries out an annual self-assessment of the adequacy of the overall liquidity risk management and measurement framework, which also includes governance, methodologies, information systems, measurement and reporting tools. The results of the assessment of the adequacy of the risk profile and the overall self-assessment are reported to the corporate bodies and brought to the attention of the Supervisory Authority.

The management of liquidity is centralised at the Parent Company. The monitoring and control of liquidity risk is carried out on a daily basis (short-term liquidity) and monthly (structural liquidity) and has the objective of monitoring the evolution of the risk profile by verifying its adequacy with respect to the Risk Appetite Framework and operating limits. In particular, the Group uses a monitoring system that includes both short-term and long-term liquidity indicators. To this end, both regulatory metrics (LCR, NSFR) and metrics developed internally are used, including the use of behavioral and/or optional parameter estimation models.

During 2023, the Group's liquidity and funding profile was higher than the regulatory and internal risk limits.

For more information on this risk and related safeguards, as well as on the time distribution by contractual residual maturity of financial assets and liabilities, please refer to the qualitative and quantitative information included in Section 1.4 Liquidity Risk of the Notes to the consolidated financial statements.



Information on legal, employment law, tax and complaints risks

Information on legal, employment and tax risks

The Group carefully reviews and monitors the risks associated with or connected to legal disputes, i.e. disputes brought before judicial authorities and arbitrators, and out-of-court claims, making specific allocations to provisions for risks and charges for disputes and out-of-court claims considered to have a “likely” risk of a disbursement of financial resources, using statistical or analytical criteria.

The following were pending as at 31 December 2023:

- legal disputes with a total relief sought, where quantified, of EUR 3,528.3 mln, of which approximately EUR 1,645.8 mln as relief sought relating to disputes classified as “likely” risk, for which provisions for EUR 447.0 mln are recognised and approximately EUR 1,882.5 mln as relief sought attributed to disputes classified with a “probable” risk;
- out-of-court claims for a total relief sought, where quantified, of approximately EUR 63.0 mln, of which approximately EUR 47.7 mln classified as “likely” risk, for which provisions for EUR 18.2 mln are recognised, and approximately EUR 15.3 mln classified as “probable” risk;
- risks related to contractual guarantees with a total relief sought, where quantified, for approximately EUR 306.9 mln, of which EUR 95.5 mln classified as “likely” risk and approximately EUR 15.3 mln with a “probable” risk.

The most significant events in 2023 refer to:

- bankruptcy revocatory actions, anatocism and interest for a total relief sought of EUR 280.3 mln, of which EUR 272.3 mln at “likely” risk of disbursement of financial resources;
- derivatives for a total relief sought of EUR 124 mln, of which EUR 58 mln at “likely” risk of disbursement and EUR 66 mln at “possible” risk;
- financial information disclosed in the period 2008-2015, for a total relief sought quantifiable at EUR 1,340 mln, broken down as follows:

Type	31 12 2023	30 09 2023	30 06 2023	31 03 2023	31 12 2022
Civil dispute	685	833	1,593	1,593	1,591
Filed civil claim cp 29634/14	-	-	111	111	111
Filed civil claim cp 955/16	160	160	160	158	158
Filed civil claim cp 33714/16	495	-	-	-	-
Total legal proceedings	1,340	993	1,864	1,862	1,860
Out-of-court claims	-	1,863	2,264	2,260	1,533

With reference to civil disputes, the decrease in relief sought recorded as at 31 December 2023 compared to the end of the previous year, amounting to EUR 906 mln, is attributable to: (i) the reclassification to “remote” risk of a relief sought of EUR 741 mln Euro, carried out starting from 30 September 2023, following the ruling of the Supreme Court of 11 October 2023 issued as part of criminal proceedings 29634/14 and (ii) the intervention in criminal proceedings 33714/16 of some plaintiffs civil disputes for a relief sought of EUR 165 mln.

The relief sought of EUR 111 mln referred to the criminal proceedings 29634/14, classified as a “remote” risk as at 30 September 2023, was extinguished on 11 October 2023 following the above-mentioned decision of the Supreme Court.

The document-based relief sought referring to the civil plaintiffs in the criminal proceedings 33714/16 amounted to EUR 495 mln, and is represented for the first time in the fourth quarter of 2023, following the Parent Company joining the criminal proceedings in November 2023 as civilly liable party.

The relief sought of out-of-court proceedings as at 31 December 2023, net of complaints and mediations converted into judicial initiatives, amounted to EUR 1,519 mln and is not represented in the above table following the classification of the related risk from “likely” to “remote”.

Risks for tax (an overall relief sought of EUR 42.2 mln, of which EUR 17.7 mln for a “likely” risk of disbursements of financial resources) and employment law (an overall relief sought of EUR 62.6 mln, of which EUR 46.5 mln



classified as “likely” risk) are also subject to monitoring and evaluation by the competent Group functions, and in the event of disputes with “likely” risk, appropriate allocations are made to the provision for risks and charges.

With regard to other legal risks not attributable to the dispute, please note:

- the action taken by the Parent Company to compensate customers involved in the purchase of diamonds in previous financial years should be noted. As at 31 December 2023, more than twelve thousand five hundred requests were received for a total value of approximately EUR 318 mln, almost all of them completed (EUR 1.62 mln of which in the 2023 financial year, covered for the countervalue net of the market value of the stones by the provision for risks and charges set aside in previous financial years). As at 31 December 2023, the transactions completed represented 92.3% of the total volume of diamond offers reported by the Parent Company.
- indemnities are envisaged to be paid to the transferee counterparties of non-performing loan portfolios if the representations and warranties (R&W) issued as part of the sale transaction turned out not to be true. In this regard, note the securitisation transaction carried out by the Group in December 2017 in favour of Siena NPL which resulted in the cancellation of bad loans for a gross exposure of over EUR 22 bn, whose R&W expired on 31 July 2021. At the reference date of these financial statements, almost all requests received by the deadline were analysed, of which a limited percentage was assessed as well-founded and therefore paid. Also of note are: (i) the “Morgana” transaction in the 2019 financial year, which involved EUR 663 mln of gross exposure of lease secured non-performing loans, the representations and warranties for which were due in October 2021 and for which, of the requests received and analysed, a small portion was deemed to be well-founded and not yet paid, (ii) the “Hydra-M” demerger in 2020 concerning EUR 7.2 bn of gross non-performing loans whose R&W reached expiring on 1 December 2022 and for which all claims received were analysed and paid when deemed justified; (iii) the “Fantino” sale transaction for the year 2022 concerning EUR 0.9 bn of non-performing loans, whose representation and warranties, with the exception of those given in favour of the transferee Intrum expired on 28 October 2023, shall expire within the first half of 2024 (Amco Spa and Illimity Spa). In relation to this sale, as at 31 December 2023 all the requests received were analysed and, where deemed justified, paid; (iv) the “Mugello” sale transaction in 2023 concerning EUR 0.2 bn of non-performing loans, whose representations and warranties will expire in the first quarter of 2025; to date, no requests for compensation have been notified.

For further information, please refer to Section E of the Notes to the consolidated financial statements - 1.5 Operational Risks, “Main types of legal, employment law and tax risks”.

Disclosure on claims

Claims management represents:

- an essential activity in managing the relationship with customers;
- a tool for identifying any critical issues and improving the quality of products/services provided;
- a useful safeguard in protecting the customer, both to encourage amicable resolution of disputes, and to define, in cases where this does not occur, the parties’ positions, conducting an initial investigation before pursuing the dispute in other judicial settings.

The Group makes available to customers, both on its website and those of its subsidiaries, and at all branches, information on how to handle complaints - in order to publicise the methods for submitting complaints and the time required for their management - as well as on the main systems for out-of-court resolution of disputes currently available in Italy (known as ADR), to which the Parent Company adheres. These systems are the Arbitro Bancario Finanziario (ABF, i.e. the Banking and Financial Ombudsman), Arbitro per le Controversie Finanziarie (ACF, i.e. the Financial Dispute Arbitrator) and the various mediation entities registered with the Ministry of Justice.

In 2023, more than 5,830 complaints were received at Group level (of which more than 5,420 received by the Parent Company); the main areas of dispute concerned:

- delays in processing of tax credits for building bonuses;
- errors/delays in the execution of transactions on current accounts and mortgages;
- issues related to fraud and losses on cards and payment systems.
- alleged inadequacies in the preventive disclosure provided to customers who performed transactions on equities and bonds, however, dating back to previous years.

In the same period, over 5,800 complaints were processed with an acceptance rate of approximately 41%. The areas with the highest number of, totally or partially, customer-friendly outcomes were other loans (due to the issue



of processing delays on tax credit transfers for building bonuses), current accounts, home loans and consumer credit.

285 ABF claim were received and recorded during the year, and 381 decisions were made; about 64% were in favour of the Parent Company, rejecting the petitions made by customers, while about 21% recorded favourable results, in whole or in part, to the claimants; the remaining around 15% is represented by disputes which ended with the parties reaching an agreement.

During the same period, 47 ACF claims were received and 51 decisions; 32% were in favour of the Parent Company while approx. 68% recorded results in favour of the customers; there were no ACF claims declared extinguished by settlement.



Inspection activities and procedures of the Supervisory Authorities

As the Group carries out banking activities and provides investment services, it is subject to comprehensive regulation and supervision, in particular by the ECB, Bank of Italy and CONSOB, each for the respective areas of responsibility.

At the date of this report, as explained in detail below, some inspections are still ongoing (some of which were initiated in earlier periods) or awaiting the receipt of the Final Follow-up Letter or Final Decision from the ECB, while for others only the completion of corrective actions remains.

Audit on internal models - Internal Model Investigation (IMI-2022-ITMPS-0197502)

In February 2022, the ECB launched an on-site inspection for the approval of the authorization request (sent by the Parent Company to the ECB on 9 November 2021) to the material changes for the credit risk models. The material changes relate to the adaptation of the AIRB models (PD and LGD) to the reference regulatory legislation (EBA/GL/2017/16), to the resolution of the findings that emerged in previous inspections and the roll-out of the EAD parameter. The audit activities were completed on 13 May 2022. On 1 March 2023, the Parent Company has received the Final Decision Letter from the ECB, with the approval of the 2021 model change. All findings from previous IRB inspections were addressed and an action plan was developed to remedy the findings identified in IMI Inspection 0197502. The models were implemented in the Group's management systems since February 2023 and have been in use since the regulatory reporting of the first quarter of 2023.

The activities relating to the action plan will be concluded by September 2024, in line with the expectations of the ECB.

Supervisory assessment, implementation plan and ECB Thematic Review on climate and environmental risks

In 2023, the Group continued to implement the plan to integrate climate and environmental risks (C&E risks) into the risk management framework, in line with indications received from the ECB as part of the specific Thematic Review launched at the beginning of 2022.

On 19 September 2023, the ECB sent the Parent Company a Resolution concerning the process of identifying C&E risks, requesting further strengthening on the materiality assessment, on the monitoring of impacts in the business context and recommending that an update of the materiality assessment on liquidity risk be carried out to incorporate also some acute physical risk events. In this regard, the Parent Company has defined specific actions that will be implemented over the years 2024 and 2025.

On 3 February 2023, the ECB sent the Parent Company a letter relating to the results of the analysis conducted on the adequacy of the information provided on C&E risks. With this letter, the Authority asked the Bank to further improve its disclosure on climate and environmental risks, identifying appropriate actions and addressing the shortcomings found. On 17 March 2023, the Bank provided evidence of the improvements already implemented and those planned.

The Parent Company was also selected to participate in the "Fit-for-55 climate risk scenario analysis" exercise that will be conducted by the EBA, with the support of the ECB and ESRB, during the first quarter of 2024. The purpose of the exercise is to assess the progress made by banks in managing data relating to C&E risks and in aligning with ECB best practices on the issue.

Credit and counterparty risk audit (OSI 0198380)

On 19 April 2022, the ECB launched an audit on credit and counterparty risk with the aim of i) identifying and quantifying any impairment effects on the portfolios under audit, ii) verifying the IFRS 9 provisioning model for portfolios under review, iii) reviewing the credit classification and provisioning process. The activities were completed in the third quarter of 2022 and the Parent Company received on 10 July 2023 the Follow-up Letter with recommendations associated with the findings of the inspection report, following which it prepared a specific action plan, the implementation of which is expected to be completed by the first half of 2024.



Residential Real Estate Targeted Review

During the fourth quarter of 2022, the Parent Company was involved in a Targeted Review by the ECB of the “residential properties” portfolio, focusing on the credit granting process.

The exercise included a preliminary phase, which ended in February 2023, of data collection and benchmarking checks, followed by a workshop to meet with the institutions involved.

On 31 October 2023, the Bank received an Operational Act indicating nine findings and related recommendations. The three main areas of intervention concern the review of the autonomy of the branches, the strengthening of the stress testing framework and the process of assessing the loan repayment capacity by the customer. The implementation of remedial actions for the resolution of the findings is expected in the first half of 2024.

Audit on internal models - Internal Model Investigation (IMI 0227377)

On 19 June 2023, the ECB launched an onsite inspection for the approval of an application for authorisation of material changes to the credit risk models used to determine the capital requirements of Banca Widiba. The application is based on the request to extend the Group models (corporate and retail) for the three parameters PD/LGD/EAD to the subsidiary Banca Widiba.

The inspection ended in August 2023 and on 23 October 2023 the ECB sent the final inspection report reporting 12 findings; the Parent Company is waiting for the Final Decision Letter with an indication of the related remedial actions to be implemented.

Cyber Resiliency Stress Test 2024

The Parent Company was selected by the ECB to participate in the 2024 cyber resiliency stress test, aimed at assessing the digital operational resilience of significant entities in the event of a serious cyber security threat. The outcome of the test will be communicated to the Parent Company by the third quarter of 2024.

IFRS 9 Financial year 2022

During the second half of 2022, the Parent Company took part in the IFRS 9 benchmarking exercise conducted by EBA, with the aim of assessing whether the use of different modelling techniques could lead to significant inconsistencies in terms of the amount of expected credit losses (ECL) that directly affect own funds and regulatory ratios. The two most significant findings that have emerged as a result of the activities relate to the overlay governance process and the collective staging criteria. During the second half of 2023, the Parent Company therefore formalised the governance of the process and finalised the collective staging criteria adopted starting from the accounting assessments of 31 December 2023.

The Supervisory Authority also submitted this exercise to the Parent Company for the year 2023, in order to monitor the achievement of the expectations previously communicated; the Parent Company sent a response in February 2024 and is awaiting the outcome of the reviews.

Consob Audit on Investment Services

From 3 May 2022 to 17 February 2023, a Consob audit on the Parent Company was carried out, aimed at ascertaining the state of compliance with the new legislation resulting from the adoption of Directive 2014/65/EU (so-called MiFID II) with regard to the following profiles: (i) the procedural arrangement defined in terms of product governance; (ii) the procedures for assessing the adequacy of transactions carried out on behalf of customers. As a result of the aforesaid inspections, on 28 July 2023 Consob, noting a context of substantial compliance with the regulatory framework and supervision by the control functions, notified the Bank of a number of aspects worthy of in-depth examination and updating that had emerged during the inspection, in relation to which a plan of action had already been adopted and was still in an advanced stage of implementation.

Bank of Italy and FIU audit on anti-money laundering

The audit undertaken by the FIU (Financial Intelligence Unit), which began on 8 May 2018 and ended on 28 August 2018, concerned the assessment of procedures implemented to verify potential anomalies relating to the transactions of customers and employees of the Parent Company on a limited number of branches and an analysis



of customers identified as potentially linked to money laundering phenomena. The Authority, confirming the occurrence of the unlawful act and the Parent Company's liability for the alleged violation (failure to report suspicious transactions), notified in November 2020 to eight branch managers and to the Parent Company, jointly and severally, 8 penalty orders for a total amount of approx. EUR 220 thousand, for which the Parent Company, not considering the merits of the conditions for the imposition of penalties, filed an appeal before the Court of Rome within the legal terms.

In October 2021, the Supervisory Division of the Venice Office of the Bank of Italy carried out inspections at three branches of Banca MPS, mainly aimed at investigating the operations of some cooperative companies subject to insolvency proceedings, active in the goods handling sector.

In August 2022, the Bank of Italy communicated the results of the anti-money laundering branch audit which identified some areas of weakness that resulted in the lack of ability of the branches to intercept the overall pattern of cash transactions of the cooperatives. The aforementioned weaknesses concerned the due diligence and active collaboration process that require the strengthening of the controls in order to identify, characterise and, consequently, address the objective and subjective elements of anomaly in the transactions carried out by the cooperatives, referring to both corporate characteristics and *modus operandi*.

The findings of the Supervisory Authority were duly taken into account and the Parent Company's response letter, accompanied by the ongoing and planned corrective measures, the contents of which were approved by the Board of Directors, was sent to the Bank of Italy on 20 December 2022.

With reference to the subsidiary Banca Widiba, it should be noted that, in December 2022, the AML (anti-money laundering) inspection started on 7 November 2022, aimed at verifying the controls adopted by the Bank to mitigate the risks of money laundering relating to the digital onboarding process, and at the end of which some strengthening actions were recommended by the Bank of Italy.

The findings of the Supervisory Authority were duly taken into account and the Bank's response letter, attaching the corrective measures envisaged in the 2023 AML-CFT Plan, the contents of which were approved by the Board of Directors of Banca Widiba, was sent to the Bank of Italy on 4 April 2023.



Regulatory Developments

With reference to the regulatory framework for prudential supervision, the process of formal approval by the European Parliament and the Council is underway as regards the final texts of the new “banking package” by which the standards approved by the Basel Committee at the end of 2017³⁰ are transposed into Regulation (EU) No 575/2013 and Directive 2013/36/EU, with specific reference to the treatment of the main risks (credit, market and operational) and the so-called “output floor” which aims to counteract the possible underestimation of the risk deriving from the use of banks’ internal models.

The new so-called “CRR3” regulations include a number of new features, including:

Credit risk - standardised method (SA-CR):

- introduction of a stricter approach for unconditionally cancellable commitments (UCCs), for which a credit conversion factor (CCF) is to be raised from 0% to 10%, thus leading to a capital absorption;
- revision of the risk weights for exposures in the form of subordinates that go from 100% to 150% and equity exposures that go from 100% to 250%, distinguishing the latter from short-term and riskier speculative investments which are assigned a risk weight of 400%;
- introduction of a standardised credit risk assessment approach for exposures to institutions for which a credit assessment by a chosen ECAI is not available. This method requires banks to classify the aforementioned exposures in one of the three classes (corresponding to different weighting factors) on the basis of quantitative and qualitative criteria defined by the regulator.
- reintroduction of the “prudential filter” on government bonds until 31 December 2025, providing for 100% full sterilisation for the entire period of application.

However, a long transitional regime (2025-2030) is envisaged, which will allow banks to defer capital impacts.

Market risk: the implementation of the Fundamental Review of the Trading Book (FRTB), so far introduced in Europe (with CRR2) only for reporting purposes, is fully implemented;

Operational risk: the calculation of the capital requirement must be carried out with a single standardised method applied by all banks (replacing the approach based on the Advanced Measurement Approach -AMA internal models), solely on the basis of the size of an entity’s business, ignoring the historical figure of past losses;

Environmental, social and governance risks: the first references are introduced on the issue of climate risks and on how banks and supervisors will have to take them into account with the main objective of further strengthening the resilience of the European banking system, contributing to sustainability with a “green transition” and make the supervisory powers more incisive.

The new provisions of the CRR3 should apply from 1 January 2025, while the transposition of the Directive must be carried out within 18 months from the date of publication in the EU Official Journal.

Based on the actual regulatory framework, the Group does not expect that the new forecast result in an increase in capital requirement.

New tax regulations

The most significant regulatory measures in terms of taxation introduced in 2023 are set out below.

Extraordinary tax on the increase in net interest income (so-called “Windfall tax on excess bank profit”)

Italian Law Decree no. 104 of 10 August 2023, converted with amendments by Law no. 136 of 9 October 2023, with art. 26 introduced an extraordinary tax (one -off) on banks operating in Italy on the increase in the interest margin. Specifically, the tax - not deductible for IRES and IRAP purposes - is equal to 40% of the amount of the interest margin for the year 2023, which exceeds the 2021 interest margin by at least 10%, with a maximum limit of 0.26% of RWAs (Risk-Weighted Assets) as at 31 December 2022. As an alternative to payment of the tax, at the

³⁰ See Basel III: Finalising post-crisis reforms, December 2017.



time of approval of the 2023 financial statements, banks may allocate an amount not less than 2.5 times the calculated tax to a non-distributable reserve identified for this purpose.

The regulation also provides that any subsequent use of that reserve for distribution of profits, will result in the obligation to pay the tax due, increased for an amount equal to the interest rate on deposits with the ECB as of 30 June 2024 within 30 days of the relevant resolution adopted by the Shareholders' meeting.

For the impacts on the results of operations of the Group, please refer to paragraph "Tax position of the Group" in the Consolidated report on operations.

Repeal of the ACE subsidy

Art. 5 of Italian Legislative Decree no. 216 of 30 December 2023 (enacted in implementation of the assignment of legislation powers for the tax reform pursuant to Law no. 111 of 9 August 2023) as from the tax period following that in progress until 31 December 2023, provides for the repeal of the regulations relating to the aid for economic growth (ACE) pursuant to art. 1 of Italian Law Decree 201/2011, i.e. the incentive for the capitalisation of companies to be used in the form of a deduction from the total net income (for IRES purposes, for joint-stock companies) of an amount equal to the notional return on new equity.

In any case, the regulation is without prejudice to the rights acquired in relation to the carry-over of previous ACE surpluses and subsequent use thereof until their total exhaustion.

For the impacts on the results of operations of the Group, please refer to paragraph "Tax position of the Group" in the Consolidated report on operations.

Global Minimum Tax

Italian Legislative Decree no. 209 of 27 December 2023 (issued in implementation of the assignment of legislation powers for the tax reform pursuant to Law no. 111 of 9 August 2023) with which the Directive (EU) 2022/2523 of the Council of 14 December 2022 on global minimum taxation, is transposed into Italian law, introduces a coordinated system of rules to combat the global erosion of the corporate tax base developed by the OECD (Pillar II GloBE Rules) to meet the new international tax challenges deriving from the digitalisation and globalisation of the economy. The regulation states, in particular, rules aimed at introducing an effective minimum taxation of large multinationals at global level ("Global Minimum Tax"). These rules, defined as part of the international agreement reached at OECD/G20 level in October 2021, are aimed at multinational and national groups with total revenues equal to or greater than EUR 750 mln and are aimed at ensuring that these groups are subject to an effective minimum tax rate of at least 15% in relation to the income generated in each country in which they operate.

In order to guarantee this minimum rate of taxation of multinational or national groups of companies, the decree provides for taxation levied in Italy through:

- a) a minimum supplementary tax payable by parent companies, typically the holding company or ultimate Controlling Entity of a multinational group or a domestic group, in relation to entities, belonging to the group, that are subject to low taxation (i.e., less than 15%) in the country where they are located; and
- b) the minimum supplementary tax due by one or more companies of the multinational group in relation to those companies of the group that are located in low-tax countries when the equivalent minimum supplementary tax has not been charged, in whole or in part, in such other countries;
- c) the minimum national tax due in relation to all the companies of a multinational or national group subject to low taxation located in Italy.

The new rules concern companies located in Italy, which are part of a multinational or national group characterised by annual revenues equal to or greater than EUR 750 mln (except for some expressly identified exclusions).

For the impacts on the results of operations of the Group, please refer to paragraph "Tax position of the Group" in the Consolidated report on operations.

Deferral of deductible portions of write-downs and losses on receivables

Art. 1, paragraphs 49 to 51, of Law no. 213 of 30 December 2023 (so-called "2024 Budget Law") provides for the deferral of part of the deductions, for IRES and IRAP purposes, of surpluses deriving from write-downs and losses on receivables, for credit and financial institutions as well as insurance companies as provided for in art. 16 of Italian Law Decree 83/2015. In particular, it provides for the deferral, on a straight-line basis, to the tax period in progress until 31 December 2027 and the following tax period, of the deduction of 1% portion of the amount of



the aforesaid negative components set forth for the tax period in progress until 31 December 2024 and the 3% portion set forth for the tax period in progress until 31 December 2026.

Moreover, according to this provision, the deferral does not apply for the purposes of determining the advances referring to the aforementioned tax periods. This regulation had no significant impact on the Group's accounts.

Building Bonus Initiatives

During 2023, there were several additional regulatory initiatives aimed at modifying the regulations relating to tax deductions recognised for specific activities in the construction sector (so-called "Building Bonuses"), briefly summarised below.

By Italian Law Decree No. 11 of 16 February 2023, with effect from 17 February 2023, the possibility of exercising the options for invoice discount and credit transfer was abolished pursuant to art. 121, paragraph 1, letter a) and b) of Italian Law Decree 34/2020, with the exception of the initiatives for which, on a date prior to 17 February 2023, the works have already started (or a binding agreement has already been executed between the parties) or the building permits have already been submitted (where required by the type of initiative) and the necessary condominium meeting resolutions have been issued in the case of works carried out by the condominiums. In consideration of the additional provisions laid out, firstly, by Italian Law no. 38 of 11 April 2023 (law converting Law Decree no. 11/2023) and, subsequently, by Italian Law Decree no. 212 of 29 December 2023, the freeze on transfers also does not apply, subject to the fulfilment of specific conditions provided for in each case, for:

- works for the demolition and reconstruction of buildings, if the application for the acquisition of the license was submitted before 17 February 2023;
- initiatives already falling within the scope of application of Articles 119 and 121, paragraph 2, of Italian Law Decree 34/2020, included in plans for the recovery of existing buildings and urban redevelopment in areas classified as category 1, 2 and 3 seismic zones, which as at 17 February 2023 were approved by the municipal administrations and, as at 30 December 2023, the application for a license had already been submitted;
- initiatives relating to properties damaged by seismic events (art. 119, paragraph 8-ter of Italian Law Decree 34/2020) or by meteorological events that have occurred starting from 15 September 2022 for which a state of emergency was declared, located in the territories of Marche Region (art. 2 paragraph 3-quater of Italian Law Decree 11/2023);
- initiatives carried out by parties referred to in lett. c), d) and d-bis) of art. 119 of Italian Law Decree 34/2020, i.e. by IACP; undivided housing cooperatives, ONLUS, ODV and APS, established as at 17 February 2023;
- initiatives to overcome and eliminate architectural barriers pursuant to Article 119-ter of Italian Law Decree 34/2020 (with limitations applicable as from 1 January 2024).

Italian Law Decree no. 11/2023 has also further amended the rules on the liability of the transferee, excluding, for cases other than wilful misconduct, the participation in the violation of the transferee who is in possession of the documentation, relating to the works that originated the tax credit, required under the new paragraphs 6-bis, 6-ter and 6-quater included in art. 121 of Italian Law Decree no. 34/2020.

In any case, for the purposes of contesting the transferee's participation in the violation (with its consequent joint and several liability) where the documentation collected thereby is incomplete, it is still required that the tax authority proves the existence of the subjective element of intent or gross negligence on the part of the transferee.

Italian Law 38/2023 has added the new paragraph 1-sexies, in art. 121, Italian Law Decree 34/2020, which introduces the possibility for banks, financial intermediaries and insurance companies, which are assignees of tax credits for works related to the Superbonus, as well as works whose expenditure has been incurred until 31 December 2022, to use these credits, in whole or in part, to subscribe to the issues of Multi-year Treasury Bonds (carried out from 1 January 2028), with a maturity of no less than 10 years. This subscription can be made up to a limit of 10% of the annual portion that exceeds the tax credits arising from works related to the Superbonus and already used in offsetting, and only if the transferee has exhausted its tax capacity in the same year.

For natural persons, in order to benefit from the 110% superbonus, with art. 24 of Italian Law Decree 104/2023, the deadline by which they must incur the expenses for works on real estate units (so-called autonomous) for which the minimum SAL (works progress status) of 30% had been reached as at 30 September 2022, was extended to 31 December 2023.

Art. 1 of Italian Law Decree 212/2023, has introduced a specific safeguard clause according to which the subsidies for works under Superbonus concerning "intermediate" SAL that were completed by 31 December 2023 and for which the option for credit assignment or invoice discounting was exercised, are not subject to recovery by the Revenue Agency in the event of non-completion of the works, even in the absence of the fulfilment of the requirement of improvement of the two energy classes.



Furthermore, art. 3 of Law Decree 212/2023 provides for a series of measures that restrict the scope of application of the tax deduction in the case of elimination of architectural barriers pursuant to art. 119-ter, Law Decree 34/2020. In particular, the benefit is limited to works concerning stairs, ramps and the installation of lifts, stairlifts and lifting platforms. Payment by “Bonifico parlante” [payment method for renovation works] and a technical certification proving compliance with the technical requirements, are required.

For more information on the outstanding loans purchased by the Parent Company as at 31 December 2023, please refer to Section 12 – Part B – information on balance sheet - item 120 of the Notes of the Consolidated Financial Statements.

New regulations

Remuneration policies

Regulatory developments in 2023 will have an impact on 2024 remuneration policies. In particular, within the national context, the following should be noted:

- On 17 May 2023, Directive (EU) 2023/970 of the European Parliament and of the Council of 10 May 2023 (so-called “pay transparency”) was published in the Official Journal of the European Union. Its purpose is to strengthen the application of the principle of equal pay for men and women for equal work or work of equal value set forth in Article 157 TFEU and in the Directive 2006/54/EC on equal pay. Starting from 7 June 2027, companies with more than 250 employees will be required to report annually to the competent national authority on the gender pay gap within their organisation. If the report reveals a pay gap of more than 5% that is not justifiable on the basis of objective and gender-neutral criteria, companies will be required to act by carrying out a joint assessment of pay in collaboration with workers’ representatives.
- On 30 October 2023, Directive (EU) 2023/2225 of the European Parliament and of the Council of 18 October 2023 on consumer credit agreements, which repeals Directive 2008/48/EC, was published in the Official Journal of the European Union. The issue of the new directive was necessary in order to achieve full harmonisation that guarantees all consumers in the Union to enjoy a high and equal level of protection of their interests thus creating a well-functioning internal market. In particular, the need to establish and apply remuneration policies for personnel responsible for creditworthiness assessment consistent with sound and effective risk management, ensuring that remuneration does not depend on the number or percentage of credit applications accepted and on the sales objectives and that an assumption of risks exceeding the level of risk tolerated by the creditor is not to be encouraged.

Within the European context on 3 April 2023, ESMA has published the “Guidelines on certain aspects of the remuneration requirements of MiFID II”, which define operational guidelines on the remuneration policies and practices of intermediaries as part of the rules of conduct and obligations related to the conflict of interest regime dictated by MiFID II. The adjustment to the ESMA Guidelines has been applied within the context of the prudential provisions of Consob in force from 3 October 2023, and replaces the previous ones, issued in the regulatory framework of MiFID I and of the Bank of Italy on remuneration and incentives³¹.

The EBA, in order to contain the reporting burdens related to (i) “Guidelines on benchmarking exercises on remuneration practices, gender pay gap and higher ratios approved pursuant to Directive 2013/36/EU” and (ii) “Guidelines on the collection of information concerning the so-called “high earners” of Directive (EU) 2019/2034”, has replaced the current benchmarking tables with those used for public disclosure purposes pursuant to EU Regulation 2021³². The tables have been supplemented by additional reporting schemes to fulfil the reporting requirements included in the Capital Requirements Directive (CRD), such as those related to the gender pay gap.

On 24 April 2023, EBA also began a consultation on the Guidelines for the comparative analysis of gender diversity practices, pursuant to the CRD and the Investment Firm Directive (IFD), relating to the collection of data on the diversity policies adopted by investment institutions and firms, regarding diversity practices and the gender pay gap at management body level. They will apply to investment institutions and firms and will include templates and instructions for the collection of diversity data, currently required to be carried out every three years, with first application in 2025 for the 2024 data. The consultation ended on 24 July 2023 and the Bank of Italy is about to publish the related regulations.

³¹ Art. 53, letter a), Consolidated Banking Law, or art. 6, paragraph 1, letter c-bis), Consolidated Law on Finance.

³² High earners are those with a total remuneration of at least EUR 1 million on an annual basis.



Personnel administration

On 23 November 2023, an agreement between ABI and trade unions was signed to renew the 19 December 2019 National Collective Labour Agreement for middle managers and staff in professional areas in the sector. The Agreement provides for salary adjustments from July 2023, which will be spread over the life of the agreement and will expire on 31 March 2026 for the economic and regulatory part. The economic increase amount at the average level (3 area, 4 level) of EUR 435, which will be distributed in four moments.

The first tranche of the increase, equal to EUR 250 was paid in December 2023. The second tranche of EUR 100 will be paid in September 2024, the third tranche of EUR 50 in June 2025 and the fourth tranche of EUR 35 in March 2026.

Also in December 2023, arrears were paid from 1 July 2023 in the amount of EUR 1,250.0 (3 Area, 4 level) referring to the first tranche of increases. The regulation also provided the full restoration of the basis for calculating severance pay, reduced in 2012, effective starting from July 2023.

In addition, the agreement is characterised by:

- innovation, in particular thanks to the establishment of a committee with a “control room” functions to analyse the evolution of the banking world – including the digital bank – and keep the Contract updated; reduction of weekly working hours with equal pay from 37.5 to 37 hours; greater management flexibility;
- sustainability, with the strengthening of training investments for the development of people; support for employment through the synergy between FOC and the Solidarity Fund and the introduction of the “generational relay”; active measures to support inclusion and equal opportunities and to combat gender-based violence and harassment; possibility of adopting forms of worker participation in the life of the company.

Social security

With the budget law for 2023, the “flexible early retirement” was introduced on an experimental basis for 2023 (called “Quota 103”). It establishes that those who reach the age of at least 62 years and a minimum seniority of 41 years are entitled to retirement. The flexible early retirement provides for specific limitations on the maximum amount of the monthly gross pension and on the possibility of cumulation with other income from work.

A specific option was also introduced in the law for workers who, despite accruing Quota 103, decide to stay at work. This option allows to avoid the withdrawal by the Employer of social security contributions, as they are added to the monthly remuneration. The exercise of this option reduces the contributions to INPS and, consequently, the value of the future pension allowance.

The same Law further extended the right to opt for the earlier “woman option” pension applicable also to workers who have accrued, by 31 December 2022, the seniority requirements of 35 years and age of 60 (59 years in the presence of a child, 58 years in the presence of two or more children), provided that they assist a family member in a serious situation pursuant to Law 104, have a reduction in working capacity greater than or equal to 74% or are employed in companies in financial difficulty.

Other relevant regulations

Corporate Sustainability Reporting Directive

The Corporate Sustainability Directive (CSRD), proposed by the European Commission in 2021 and published in the EU Official Journal of 16 December 2022, introduces new rules on sustainability reporting for companies that fall within its scope of application, replacing the previous Non-financial Reporting Directive (NFRD).

The CSRD must be implemented by the Member States by June 2024 and applies from 1 January 2024, with reference to 2025 reporting, to large companies with over 500 employees already subject to the Non-Financial Reporting Directive. The provisions state that this will be progressively extended to large companies not yet subject to the Non-Financial Reporting Directive from 1 January 2025 for reports published from January 2026, to listed European SMEs from 1 January 2026 for reports published from January 2027 and, finally, to non-EU companies generating a turnover of at least EUR 150 mln in the EU and having at least one subsidiary or branch in the EU from 1 January 2028 for reports published from January 2029.

The objective of the afore described directive is to increase the transparency of information provided by companies on environmental, social and governance matters, combating greenwashing, and strengthen the sustainable footprint of the European economy and market.



Information relating to sustainability will be provided in a specific section of the Report on Operations in accordance with the European Sustainability Reporting Standards (ESRS) issued by the European Financial Reporting Advisory Group (EFRAG).

The structure of the ESRS includes three different types of standards:

- transversal, which apply to all companies regardless of the sector in which they operate;
- thematic, i.e. relating to specific environmental, social and governance issues;
- sector-specific, i.e. specific to the sector in which they operate.

On 31 July 2023, the European Commission adopted the Delegated Act containing the first set of standards, composed as follows:

- 2 transversal standards, ESRS1 and ESRS2, which set forth, respectively, the general requirements for the preparation and presentation of information relating to sustainability and the disclosure obligations at general level with reference to the four pillars of disclosures: governance; strategy; impacts, risks and opportunities (IRO); metrics and targets.
- 10 thematic standards, five of which in the environmental area (ESRS E1-E5), four in the social area (ESRS S1-S4) and one in the governance area (ESRS G1), which apply regardless of the sector to which they belong.

The main changes introduced by the new regulations include the concepts of dual materiality and value chain.

With reference to sustainability issues found to be material based on the analysis of their relevance in terms of impact and/or in financial terms (so-called dual materiality), companies must provide information on the impact of their activities on people and on the environment (inside-out approach), and with regard to the way in which sustainability issues affect the capital, financial position and performance of the company (outside-in approach). Furthermore, when reporting on sustainability information, it will be necessary to consider not only the scope of reference of the financial statements but also the information on the impacts, risks and material opportunities related to the entire upstream and downstream value chain of the company.

The new sustainability standards of the ISSB: IFRS S1 and IFRS S2

The International Sustainability Standards Board (ISSB), established in November 2021 by the IFRS Foundation, has issued, on 26 June 2023, the first two IFRS Sustainability Disclosure Standards that fully incorporate the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD):

- **IFRS S1** - *General Requirements for Disclosure of Sustainability-related Financial Information* - establishes the fundamental content requirements in order to produce a complete set of financial sustainability information and requires, in a nutshell, that an entity provides information on all risks and sustainability-related opportunities that could reasonably have an impact on the entity's prospects. The effect on the entity's prospects refers to the effect on the entity's cash flows, on its access to loans or on the cost of capital in the short, medium or long term.
- **IFRS S2** - *Climate-related Disclosure* - is, on the other hand, the first thematic standard of the ISSB, requiring the entity to provide information on its exposure to risks and opportunities strictly related to the climate.

The entry into force of the new standards is expected as from 1 January 2024, although the mandatory application will depend on the approval procedures of the individual countries.



Results by Operating Segment

Identification of Operating Segments

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

On 24 April 2023 and 29 May 2023, respectively, the mergers by incorporation into the Parent Company of MPS Leasing & Factoring S.p.A. and MPS Capital Services Banca per le Imprese S.p.A. took effect. Though in both cases the accounting and tax effects date from 1 January 2023, for the first half of 2023, the merged entities are included in the segment reporting results on the basis of their contribution to the Group’s results as independent business units, in line with management reporting. This contribution, for the period included between the mergers and 30 June 2023, was estimated on the basis of operating data and, where available, accounting records. The contribution relating to the second half of the year for the customers of the merged companies was instead attributed to the operating segments on the basis of the service model actually assigned to the customers. The comparative balance sheet figures as at 30 September 2023 were therefore restated with respect to those published in the Interim Report on Operations as at 30 September 2023, in order to allow a homogeneous comparison. The result of operations and financial results as at 31 December 2022, on the other hand, were not restated and therefore are not fully comparable (with particular reference to the Corporate Banking and Large Corporate and Investment Banking segments).

Also note that, from 1 January 2023, the insurance associates AXA MPS Assicurazioni Danni S.p.A. and AXA MPS Assicurazioni Vita S.p.A. simultaneously adopted for the first time the new accounting standard IFRS 17 “Insurance contracts”, which came into force on 1 January 2023, and IFRS 9 “Financial instruments”. The transition date is the beginning of the financial year immediately prior to that of first application (i.e. 1 January 2022).

Income statement values as at 31 December 2022 relating to the value of investees, recognised in the financial statements of the MPS Group using the synthetic equity method, were restated compared to those published at the related reporting date, to guarantee a homogeneous comparison.

Based on the Group’s reporting criteria, which also take into account the organisational structures and the above, the following operating segments are defined:

- **Retail Banking**, which includes the income statement/balance sheet results of Retail customers (Value and Premium segments) and Banca Widiba S.p.A. (Financial Advisor Network and Self-service channel);
- **Wealth Management**, which includes the income statement/balance sheet results of Private Banking customers (Private Banking and Family Office segments) and the subsidiary MPS Fiduciaria;
- **Corporate Banking**, which includes the income statement/balance sheet results of Corporate customers (SME, Corporate Client and Small Business segments), Foreign Branches, the merged entity MPS Leasing & Factoring S.p.A. and the foreign bank MP Banque;
- **Large Corporate and Investment Banking**, which includes the income statements/balance sheets of Large Corporate customers, of the Corporate Finance and Investment Banking and Global Market Business Units as well as of the merged MPS Capital Services Banca per le Imprese S.p.A. (for the first half of the year);
- **Corporate Centre**, which in addition to the offsetting of intragroup entries, incorporates the results of the following business centres:
 - Non-Performing customers managed centrally by the Non-Performing Loans Unit;
 - companies consolidated with the equity method and those held for sale;
 - operating units, such as proprietary finance, treasury and capital management;
 - service units supporting the Group’s business, dedicated in particular to the management and development of IT systems.

The income statement and balance sheet results for each identified operating segment are shown in the following paragraphs. It should be noted that, starting from the first quarter of 2023:

- some refinements were implemented in the methodology for allocating operating costs to the operating segments;
- the following reclassifications are no longer reported:



- i. the effects on the income statement of the Purchase Price Allocation (PPA) of past business combinations, which impacted the items “Net interest income”, “Net value adjustments to property, plant and equipment and intangible assets” and “Income taxes for the year”, are no longer recognised in the specific item (PPA) but remain in the income statement items concerned;
- ii. Rental income, previously reclassified to the item “Net value adjustments to property, plant and equipment and intangible assets”, remain in the item “Other operating income/expenses”.

The comparative periods were restated in order to allow a homogeneous comparison.

Results in brief

The following table reports the main income statement and balance sheet items that characterised the Group's Operating Segments as at 31 December 2023:

SEGMENT REPORTING	Operating Segments										Total MPS Group		
	Retail banking		Wealth Management		Corporate Banking		Large Corp. & Investment Banking		Corporate Center				
Primary segment													
(EUR mln)	31/12/23	Chg % Y/Y	31/12/23	Chg % Y/Y	31/12/23	Chg % Y/Y	31/12/23	Chg % Y/Y	31/12/23	Chg % Y/Y	31/12/23	Chg % Y/Y	
PROFIT AND LOSS AGGREGATES													
Total Revenues	1,950.8	55.2%	180.5	33.0%	1,534.2	53.7%	234.9	23.9%	(103.7)	n.m.	3,796.8	21.7%	
Operating expenses	(1,027.8)	-12.4%	-109.6	-13.6%	-513.8	-13.2%	-79.2	-25.0%	(112.4)	1.9%	(1,842.8)	-12.6%	
Pre Provision operating Profit	923.0	n.m.	70.9	n.m.	1,020.4	n.m.	155.7	85.4%	(216.0)	n.m.	1,954.1	93.2%	
Cost of customer loans/Net impairment (losses)- reversals on securities and loans to banks	(141.1)	n.m.	-3.2	n.m.	-262.2	28.1%	-0.4	-99.3%	(36.6)	-76.3%	(443.5)	6.1%	
Net Operating Income	781.9	n.m.	67.7	n.m.	758.3	n.m.	155.4	n.m.	(252.6)	n.m.	1,510.6	n.m.	
	31/12/23	Chg. % 31/12	31/12/23	Chg. % 31/12	31/12/23	Chg. % 31/12	31/12/23	Chg. % 31/12	31/12/23	Chg. % 31/12	31/12/23	Chg. % 31/12	
BALANCE SHEET AGGREGATES													
Gross Interest-bearing loans to customers (*)	30,591	-1.2%	519	-8.8%	32,409	-1.9%	3,942	-29.4%	10,156	48.6%	77,618	0.8%	
Direct funding	40,162	-5.4%	2,623	-3.3%	24,819	6.8%	3,257	n.m.	19,779	65.0%	90,639	10.5%	
Indirect Funding	56,737	13.1%	15,362	7.7%	6,302	12.6%	7,972	1.2%	10,472	-27.8%	96,845	4.8%	
Assets under management	43,845	4.2%	10,394	-3.5%	2,215	-10.6%	37	-1.2%	397	-83.1%	56,888	-1.5%	
Assets under custody	12,893	59.5%	4,967	42.4%	4,087	31.0%	7,935	1.2%	10,075	-17.1%	39,957	15.2%	

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



Retail Banking

Business areas	Customers																		
Retail MPS • Funding and provision of insurance products. • Lending. • Financial advisory services. • Electronic payment services.	<i>Retail Banking</i> customers number approximately 3.2 mln and include approximately 249,000 exclusive customers of Banca Widiba. The total number of Banca Widiba customers, including those shared with the Parent Company, is approximately 272,400, of which approximately 113,700 on the Financial Advisor Network channel, approximately 108,000 on the Self channel, and approximately 50,700 customers migrated from the MPS branch network.																		
Banca Widiba • Banking products and services, deposit account, cards and advanced payment systems; customer self-service through the bank's digital channels or in assisted mode with the support of a Financial Advisor. • Fully customisable online platform that relies on a Network of 566 Financial Advisors present throughout the country. • Funding and Global advisory services and financial planning through the advanced WISE platform and the skills of the Financial Advisor Network. • Mortgage loans, credit facilities and personal loans. • Innovative interaction through computers, smartphones, tablets, watches and TV.	Breakdown by type <table border="1"> <thead> <tr> <th>Type</th> <th>Percentage</th> </tr> </thead> <tbody> <tr> <td>Value</td> <td>76.6%</td> </tr> <tr> <td>Premium</td> <td>15%</td> </tr> <tr> <td>Widiba</td> <td>8.4%</td> </tr> </tbody> </table> Breakdown by geography <table border="1"> <thead> <tr> <th>Geography</th> <th>Percentage</th> </tr> </thead> <tbody> <tr> <td>North East</td> <td>17.4%</td> </tr> <tr> <td>North West</td> <td>15.7%</td> </tr> <tr> <td>Centre</td> <td>35.5%</td> </tr> <tr> <td>South</td> <td>31.4%</td> </tr> </tbody> </table>	Type	Percentage	Value	76.6%	Premium	15%	Widiba	8.4%	Geography	Percentage	North East	17.4%	North West	15.7%	Centre	35.5%	South	31.4%
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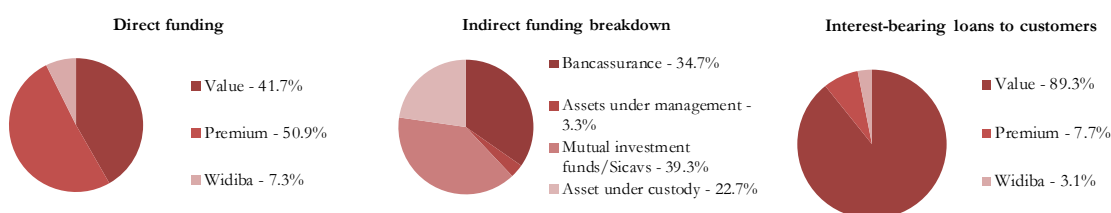
Income statement and balance sheet results

As at 31 December 2023, Total Funding from Retail Banking amounted to **EUR 96.9 bn**, up by EUR 2.9 bn compared to September 2023 and EUR 4.3 bn compared to the end of 2022; the increase compared to year end in both components of Indirect Funding, particularly assets under custody, more than offset the outflow recorded in Direct Funding components. More specifically:

- **Direct Funding** amounting to **EUR 40.2 bn**, was slightly up on 30 September 2023: the increase in short-term funding (EUR +0.8 bn) was only partially offset by the decline in medium/long-term funding (EUR -0.3 bn) and on-demand funding (EUR -0.1 bn). The aggregate was down by EUR 2.3 bn compared to 31 December 2022, with a decrease in demand deposits (EUR -2.1 bn) and medium/long-term deposits (EUR -2.0 bn), while short-term deposits increased (EUR +1.7 bn);
- **Indirect Funding**, amounting to **EUR 56.7 bn**, increased by EUR 2.6 bn compared to levels at the end of September 2023, thanks to the growth in assets under custody (EUR +1.5 bn) and assets under management (EUR +1.1 bn). The aggregate was also up compared to 31 December 2022 (EUR +6.6 bn), both on the asset management component (EUR +1.7 bn) and on the assets under custody component (EUR +4.8 bn);
- **Gross interest-bearing loans to Retail Banking customers** were **EUR 30.6 bn**, essentially in line with 30 September 2023 and down slightly compared to 31 December 2022 (EUR -0.4 bn).


RETAIL BANKING - BALANCE SHEET AGGREGATES

(Eur mln)	31/12/23	30/09/23	31/12/22	Chg Abs Q/Q	Chg % Q/Q	Chg Abs Y/Y	Chg % Y/Y
Direct funding	40,162	39,858	42,453	304	0.8%	(2,291)	-5.4%
Assets under management	43,845	42,725	42,095	1,119	2.6%	1,749	4.2%
Assets under custody	12,893	11,395	8,081	1,497	13.1%	4,812	59.5%
Indirect Funding	56,737	54,121	50,176	2,616	4.8%	6,561	13.1%
Total Funding	96,899	93,979	92,629	2,920	3.1%	4,270	4.6%
Gross Interest-bearing loans to customers	30,591	30,690	30,974	(99)	-0.3%	(383)	-1.2%



With regard to profit and loss, for the year ended 31 December 2023, *Retail Banking* achieved total **Revenues** of approx. **EUR 1,951 mln**, up by 55.2% compared to 2022. A breakdown of the aggregate shows:

- Net Interest Income was EUR 1,133 mln, up by EUR 746 mln compared to 31 December 2022, driven by the higher contribution of commercial assets;
- Net fees and commissions were equal to EUR 756 mln, with a 5.5% decrease from the figure of the previous year, primarily due to lower fees and commissions from (i) placement of asset management products due to customers' renewed interest in assets under custody instruments, and (ii) lending, also following enhancement of the internal consumer finance factory, launched last year (and partly penalising the intermediation of third-party products);
- Other income from banking and insurance business amounted to approximately EUR 70 mln, substantially stable compared to the previous year.

Considering the impact of Operating Expenses, down 12.4% compared to the previous year (both on personnel costs, following exits due to early retirement/access to the Solidarity Fund at the end of 2022, and on other administrative expenses), Retail Banking achieved **Gross Operating Income** of **EUR 923 mln** (EUR 83 mln as at 31 December 2022). Cost of credit stood at roughly **EUR -141 mln** (EUR -11 mln as at 31 December 2022).

The **Net Operating Income** as at 31 December 2023 was **positive for EUR 782 mln**.

The non-operating components were equal to approx. EUR -6 mln, substantially stable compared to the previous year.

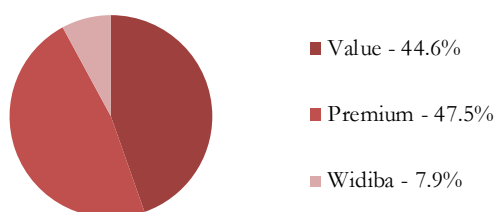
The **Result before tax from continuing operations** was **EUR 776 mln** (EUR 66 mln as at 31 December 2022).

The **cost-income ratio** of the Operating Segment is **52.7%** (93.4% as at 31 December 2022).



RETAIL BANKING - PROFIT AND LOSS AGGREGATES				
(EUR mln)	31/12/23	31/12/22	Chg. Y/Y	
			Abs.	%
Net interest income	1,132.8	387.3	745.5	n.m.
Net fee and commission income	755.9	800.3	(44.4)	-5.5%
Other Revenues from Banking and Insurance Business	69.8	69.6	0.2	0.3%
Other operating expenses/income	(7.7)	(0.1)	(7.6)	n.m.
Total Revenues	1,950.8	1,257.1	693.7	55.2%
Operating expenses	(1,027.8)	(1,173.8)	146.0	-12.4%
Pre Provision Operating Profit	923.0	83.3	839.8	n.m.
Cost of customer loans/Net impairment (losses)-reversals on securities and loans to banks	(141.1)	(11.1)	(130.1)	n.m.
Net Operating Income	781.9	72.2	709.7	n.m.
Non-operating components	(6.1)	(5.9)	(0.2)	2.7%
Profit (loss) before tax from continuing operations	775.8	66.2	709.5	n.m.

Breakdown of revenues



The main sales initiatives and product/service innovation

In the course of 2023, the Bank focused heavily on support activities for individuals and territories, responding to the needs that emerged with extraordinary support actions for Retail customers also on the basis of the government regulations. In particular, the following main initiatives were developed:

Retail loans and mortgages:

- development of a **dedicated ESG offer** through the launch of the **Green Mortgage** a product for financing of energy efficiency measures;
- continuation of sales of the **Mortgage with Consap guarantee** (LTV 80% and 100%) for the purchase of a main home, with particular focus on the needs of *young people under 36*;
- introduction in the catalogue of the Fixed Rate type of the Mortgage with Consap guarantee for priority beneficiaries and 100% LTV
- strengthening of the partnership with *Third Party Networks* also thanks to the introduction of a **web portal dedicated to intermediation**;
- **review of pricing and active management to maximise positioning in the segment**;
- full activation of post-sales processes.

In order to support customers in addressing the growing trend in interest rates, the following measures were implemented in 2023:

- renegotiation of floating rate mortgages, according to the methods provided for by Law 197/22 with particular reference to customers with ISEE [equivalent economic situation indicator] not exceeding EUR 40,000;
- **Mortgage suspension**: possibility of requesting the suspension of the payment of mortgage instalments in application of the provisions of the Gasparrini law.



Protection and Bancassurance Savings

They are at the centre of a project to review the sales and post-sales processes, also using digitalisation, to promote efficiency and usability by the Sales network and to offer a better quality service to customers. New releases of Insurance Investment products were carried out, Multi-branch and Unit Linked, aimed at meeting the needs of customers in the light of market scenarios.

Digitalisation of customers and remote operations

Measures aimed at encouraging the subscription and use of digital channels and related services.

Direct funding

The new scenario of interest rates - which since July 2022 recorded an increase after a long period in negative territory - and the volatility of the markets have led to the need to offer customers more remunerative liquidity instruments: therefore towards the end of the year the offer of CID (Conto Italiano di Deposito - Italian Deposit Account) resumed, appropriately revised with regard to product structure and return rates.

Market	Main sales initiatives developed in the reference market
Value	Four fundamental pillars are identified: • Development of the Loans segment • Development of the Protection segment • Development of the Asset Management segment • Development of E-money segment In order to improve the service provided to the customer, generic communications were activated on the social channels and on the Bank's website, in addition to marketing actions targeting products, services and channels. In particular, the following levers were used to achieve the objectives of Asset Management: • focus on PAC (Piani di Accumulo - Accumulation Plans), with the aim of transforming Direct funding and assets under custody; • proposition of individual Pension Plans and "Previdenza per Te" [Pension for you] (open pension fund) supported by marketing initiatives. In relation to the E-money segment, marketing supports (DEM) have been developed for customers who do not own MPS credit and debit cards on the Mastercard circuit, as well as customers who have but have not used them for 12 months, in order to promote their subscription and use. The development of the Loans segment was supported by constant branch campaigns, digital campaigns with support targets (DEM and POP UP) and non-targeted initiatives (ATM banners, website, social networks, account statements). The development of the Protection segment was supported by branch campaigns, often accompanied by digital campaigns (DEM), mainly referring to Axa Mps products: • Mia Protezione [My Protection] (focus on the Legal and Cyber Protection guarantee, on the Pacchetto La mia Casa [My Home Package], on the private life liability guarantee) • Formula Benessere [Wellness Formula] (focus on Alta Diagnostica e Fisioterapia e Assistenza 360 [High Diagnostics and Physiotherapy and All-around Assistance] guarantees) During 2023, projects continued on Consumer Finance relating to the expansion of the offer with the MPS Consolido product, which allowed the release of commercial initiatives in favour of customers with a need for new liquidity and with active loans from other financial institutions. Sales processes have been strengthened thanks to greater digitalisation in the signing of remote collaboration contracts, resulting in an improvement in the level of service and customer satisfaction. Several info-training meetings were held to support managers and strengthen their specialisation. Training events were organised in the area with the support of the Consumer Credit Partner, focused on the market context and customer needs.



Market	Main sales initiatives developed in the reference market
Premium	During 2023, in the Investments sector, all the new offer solutions (insurance, UCITS, etc.) implemented with partners, although diversified in terms of type and characteristics, had as their common denominator the ultimate goal of seizing the important opportunities offered by the bond segment and to support advisory activities and portfolio diversification. In the insurance sector, the initiatives supporting new products include: • commercial launch of the new Multiramo InvestiPlan [Multi-line] policy, with the new generation MPV Plus separate management underlying it, combined with targeted initiatives to support retention and conversion of customers who hold policies no longer in the catalogue; • launch of the new Unit Sviluppo Graduale [Gradual Development Unit] policy, with a progressive investment mechanism on the stock markets and with bonuses, with a focus on customers with particular characteristics. Promotional levers were also activated on unit-linked products already in the catalogue (Personal Style), with timed discounts on underwriting fees. With regard to mutual investment funds, the offer of both open-ended funds managed by the partners Anima, JP Morgan and BlackRock, as well as “window” funds, was consolidated. Particular attention was paid to solutions with investment policies based on sustainability/ responsibility and, with particular reference to window instruments, to solutions able to ensure periodic return of the invested capital to customers, in line with the needs expressed in the MIFID questionnaires and with positive trends in bond markets. To enhance the gradual and planned investment method on the financial markets (PAC), both digital marketing activities (prize competitions of the Anima Partner) and dedicated discounts were organised to encourage initial access to financial investment for customers with low assets and simpler financial needs. A particular commercial focus was reserved for the Asset Management Segment, activating dedicated discounts on underwriting commissions, to support the growth of assets under management. Positive results were recorded especially on “maturity” solutions, which represented a valid alternative to “do-it-yourself” under administration and a good solution for the optimisation of any previous losses. In addition, to complete the range of offerings and in line with the market context, several new third-party bond structures were placed during the year. With reference to the management of customer investment preferences, it should be noted that from 25 September the section of the Mifid questionnaire aimed at collecting specific preferences in the ESG area (Eco-sustainability, Sustainability, PAI) was further implemented for clients who had expressed interest in sustainability issues. With regard to the Protection segment, targets were activated to support the network mainly in the Non-Life segment. Particular attention was also paid to complementary pensions, with targets dedicated both to the development of the segment and to the fiscal optimisation of existing holders, including through the posting in quarterly statements. In the area of e-money, dedicated <i>targets</i> were made available to the network for the development of credit cards (non-card holders with a propensity to purchase) and the replacement of Mondocards, a type of card being discontinued from the Bank’s product catalogue. In relation to the “Passaggi Generazionali” [Generational Passages] initiative, which aims to acquire new customers, the levers on investment products, current accounts and e-money for new customers and/potential heirs were confirmed. With regard to the info-training aspects, in collaboration with the external partners and with the Knowledge Management and Training Service, several info-training interventions were implemented on the network, aimed at ensuring that the front-end is constantly updated on financial markets and on innovations in the offer range. In addition, every week, in collaboration with the Advisory Team, the “Markets Flash” meetings dedicated to the entire retail supply chain continue.



Market	Main sales initiatives developed in the reference market
	The role of the MPS Athena advisory platform as the only tool for providing the investment advisory service is strengthened.

Funding, Assets under Management and Bancassurance

In 2023, for Private customers, investment advisory activities focused first and foremost on rebalancing the *business mix*, new liquidity/fresh money and conversion of assets under custody to assets under management, also with dedicated promotions and support targets in coordination with the regional structures.

In the **Indirect medium/long-term funding**, the 2023 offer focused on bonds of third-party issuers with a 5-year maturity.

As part of **Direct Funding**, taking into account the needs of customers in a context of rising interest rates, activities in 2023 focused on the proposal of specific fixed-rate liquidity products (Conto Italiano di Deposito - CID [Italian Deposit Account]) resumed at the end of the year, offering a higher level of liquidity remuneration with respect to current accounts against a predetermined time constraint. The CID offer took the form of three lines with different financial characteristics and different time constraints (ranging from 3 to 36 months).

In the area of **Asset Management** for the Premium and Value segments, the offer of both open-ended funds managed by the partners *Anima, JP Morgan, BlackRock*, and “window” funds was consolidated. The focus on solutions with ESG investment policies was confirmed, an area in which the Parent Company has already adopted the necessary safeguards for a correct proposal to customers since 2022, expanding in 2023 the in-depth analysis on ESG preferences within the of the MiFID profiling questionnaire.

In particular, regarding asset management, in 2023, Banca MPS launched an activity aimed at transforming/supplementing the range of asset management lines according to the specifications pursuant to art. 8 of Delegated Regulation EU 2019/2088. The objective is to have asset management products in the range that meet the sustainability characteristics (letter b) and that consider some PAI (Principal Adverse Impact) of an environmental and social nature (letter c) in order to meet the new adequacy requirements entered into force in September 2023. The first results of the activity materialised with the transformation into art. 8 ESG (effective from 1 January 2024) about the share lines already present in the Global Equity Bias ESG and ETF Etica catalogue; in addition, work began on defining the characteristics of the four new management lines that can be classified as art. 8 ESG, with the aim of having asset management lines in the product range that cover the entire range of risk classes.

In addition, in the “sustainability” area, Banca MPS has aligned the processed for the sale of financial products to the afore-mentioned regulations. The intervention concerned:

- the revision of the MiFID questionnaire to collect the “sustainability preferences” of customers in line with the ESMA guidelines;
- the evolution of the assessment of adequacy of the customer portfolios to ESG preferences;
- the new classification of financial products according to the taxonomy set forth in the new regulations.

As a result, the Bank’s commercial offer is constantly updated and expanded with products whose characteristics are consistent with the new regulatory definitions.

The offer of **Savings insurance products** during the year evolved thanks to the revision of the funds / SICAVs combined with unit-linked and multi-segment policies, also characterized by the inclusion of additional solutions in the ESG segment.

In 2023, the offer was consolidated with the launch of a new multi-line policy called InvestiPlan, with single premium or recurring premiums, whose services are directly linked to a segregated fund and to the performance of selected funds and internal funds.

The placement of unit-linked policies in tranches with issues of the “Progetto Protetto” [Protected Project] family also continued and, in the second half of the year, of additional unit-linked policies in tranches called Sviluppo Graduale [Gradual Development] - characterised by a gradual accumulation of the equity component against a single investment by the customer

In non-life insurance protection in 2023, the Protezione Business [Business Protection] policy, a multi-guarantee product dedicated to companies, was restyled.



Throughout 2023, across the entire Bancassurance segment, the focus continued on operational improvements focused in particular on the review of sales and after-sales processes through the development of the digitalisation of the offer (use of digital signatures for 100% insurance investment products, for the main Non-Life and Health Protection, Motor, Life Protection and CPI products on loans), aimed at improving efficiency and usability by the sales network and at offering customers a higher quality service (simplification and reorganisation of sales and after-sales processes).

Finally, in December 2023, an action was taken on the governance and control of financial products for customers, which led to the revision of certain rules for defining the target market, which are a prerequisite for ensuring that the financial products and services on offer are compatible with the needs, characteristics and objectives of the target market.

Current Accounts, Payments and Collections

Among the activities carried out in 2023, the following should be noted:

- on the payment services segment, actions were taken for the mandatory developments provided for by the reference regulatory contexts and by the system rules (including, for example, SEPA Rulebook for ordinary and instant bank transfers and direct debits, migration to the new European settlement platform T2- TS2 Consolidation, mandatory adjustments to the PagoPa platform) in order to guarantee their operational continuity with the related commission income;
- fine-tuning on some processes for the management of the right of withdrawal by the customer and the Bank for current accounts and for the process relating to the Transfer of Payment Services, with the aim of minimising time and monitor any delays;
- operation to restore the conditions of current accounts carried out following the decision of the Governing Council of the ECB on 21 July 2022 to increase, starting from 27 July 2022, the reference rate DFR (Deposit Facility Rate) by 50 basis points. The Parent Company reinstated, with effect from 27 July 2023, in favour of customers, the values of current accounts conditions modified, in a negative sense, through three unilateral operations, carried out between 2018 and 2021 pursuant to art. 118, paragraph 4 of the Consolidated Banking Law.

The current account used presently for acquisitions (MPS MIO) has maintained an excellent positioning among the most convenient current accounts on the market also for 2023.

E-Money

Among the activities carried out in 2023, the following should be noted:

- the inclusion in the catalogue of the revolving card Nexi Flexible Card, a Nexi product distributed under license by the Bank;
- the preparation of commercial campaigns to support the replacement of MONDO CARD debit cards (active on the Maestro, BANCOMAT® and PagoBANCOMAT® circuits) into Debit cards valid on the Mastercard circuit, as a means of fulfilling the obligations deriving from the decision of Mastercard, owner of the circuit, to prohibit the issue or renewal of Maestro circuit cards as from 1 July 2023;
- implementation of the offer of acquiring services (POS) – provided by Nexi and distributed by the Bank – in line with the provisions of the Memorandum of Understanding for the mitigation, greater comprehensibility and compatibility of the acceptance costs of electronic payment instruments, signed by the Italian Banking Association (ABI), the Italian Association of Payment Services Providers (APSP) and the main trade associations most representative of merchants (CNA, Confartigianato, Confcommercio, Confesercenti, FIPE); in addition, the possibility was activated for merchants to accept payments on their mobile phones via virtual POS (SoftPos).

Digital Banking

In 2023, the expansion of the scope of documents, deeds and contracts that can be signed online continued with the Remote Collaboration.



To increasingly spread the use of this service, information campaigns were carried out for customers (via email, network contact and pop-up on digital banking) to encourage the use of the remote digital signature, a necessary tool for the execution of contracts and the signing of documents on digital channels.

The controls performed over the ownership of digital banking in the sales processes of the main transactional products and the availability of a fast sales process for this product are two stimulating elements for the network to expand the use of digital channels by private customers.

In the second half of 2023, a new authentication method was released for Digital Banking, which improves the user experience, making access and authorisation of transactions from the App faster, while still guaranteeing the highest levels of security. At the same time, the transition to this method allows the Bank to obtain economic benefits: the use of mobile token technology, in place of sending OTPs (One Time Passwords) via SMS, allows considerable cost savings.

ATMS

Also in 2023, Banca MPS continued its commitment to maintaining the efficiency of the ATM machines throughout the country and monitor the service level for customers, focusing on replacing obsolete machines and paying close attention to exceptional situations of machine downtime.

During 2023, a monitoring activity was carried out on ATM downtime due to lack of banknotes. Over time, the activity has brought excellent results with an increased focus by the network to the loading of ATMs with a consequent reduction in the number of ATMs hold-ups.

Open Banking

In 2023, the Bank focused on consolidating the platform with a view to full compliance with the requirements of the PSD2 regulations and interactions with third parties to facilitate the integration of Banca MPS into their systems.

Results for the subsidiary

Banca Widiba S.p.A.: as at 31 December 2023, **Total Funding** for Banca Widiba was equal to **EUR 9.8 bn**, up by EUR 1.0 bn from the start of the year and EUR 0.5 bn compared to the fourth quarter. The increases are concentrated in the indirect funding of EUR +1.2 bn (mainly on Assets under Custody, in line with system trends and absorbing substantial net inflows together with the positive effects of the financial markets in the first half of the year and in the fourth quarter of the year), while direct funding recorded a recovery in volumes in the last quarter of the year (EUR +0.1 bn compared to 30 September 2023), bringing the delay since the beginning of the year to EUR -0.1 bn out of a total stock that closed at EUR 2.95 bn.

With regard to economic results, as at 31 December 2023 Banca Widiba achieved **total net revenues** of **EUR 154.6 mln**, up by EUR 71.7 mln (+87%) compared to the previous year, due to the growth in Net Interest Income (EUR +73.4 mln, an increase attributable exclusively to the higher system interest rates, the efficiency of the cost of collection and the substantial maintenance of volumes) while Net Fee and Commission Income (equal to EUR 20.7 mln) is down by EUR -2.0 mln compared to 2022, among the various phenomena highlighting (i) a decline in revenues, in the asset management placement segment, mainly referring to the Eurovita case for which Banca Widiba has suspended placements since February, (ii) an increase in income from assets under custody and the global advisory portfolio and (iii) increased investment in recruiting new financial advisors by EUR 1 mln compared to 31 December 2022. Gross fee and commission income of EUR 73.6 mln was up by 2% compared to 2022.

Gross Operating Income stood at **EUR 89.9 mln** (up by EUR 67.9 mln), absorbing Operating Expenses (EUR 64.7 mln with an increase of EUR 3.8 mln compared to the previous year, mainly due to the communication initiatives in the first quarter of 2023 and higher personnel costs).

In relation to a Cost of credit of EUR 3.3 mln (of which EUR 0.8 mln due to non-performing loan transfer transactions), up by EUR 1.6 mln compared to 2022, the **Net operating income** is equal to **EUR 86.6 mln**, an increase of EUR 66.4 mln compared to the previous year.

Lastly, as a result of non-operating components that absorb allocations of EUR 1.7 mln on some items of provisions for risks and charges, EUR 4.0 mln on DGS charges and EUR 0.4 mln charges for Eurovita transaction, the **Profit (loss) before tax from continuing operations** was **EUR 80.4 mln**, an increase of EUR 66.7 mln compared to 2022.



As a result of these trends, the cost/income ratio went from 73% to 42%.

Net Profit closed at EUR 54 mln compared to EUR 9 mln at the end of 2022.

Main initiatives

In 2023, as regards the banking sector, further improvements were made to the product range, process innovations for both customers and Financial Advisors, strengthening of partnerships for the offer of value-added services for customers and an information campaign plan and sales to customers with a view to both cross-selling and caring.

The Bank has also been working on the transposition and implementation of the provisions on banking transparency, in compliance with the instructions of the supervisory bodies, with constant monitoring and alignment with the set forth timelines.

The commercial offer was expanded with the launch of the new Widiba debit card on the Mastercard circuit, with sales methods associated with both account opening and stand-alone and with the activation of the digital payment wallets Google Pay and Apple Pay.

Lastly, periodic and event marketing campaigns were carried out during the year, aimed at increasing the customer base and revenues, with incentives for the opening of current accounts, the crediting of fees, the contribution of fresh money, the purchase of credit cards.

In the Business segment, the process of opening Widiba accounts was made more efficient, aimed at facilitating and speeding up the activities of financial advisors.

The “acquiring” segment was characterised both by the restyling of the Nexi range with a view to innovation and streamlining of the POS terminals, and by the transition to the new Easy Merchant onboarding platform, with benefits in terms of timing and customisation of new subscriptions and stock management customers.

In 2023, in continuity with the previous year, the activities carried out by the media center were oriented towards qualitative and economic efficiency. The in-depth training of the structures focused on support and the streamlining of operating processes have contributed to effective and efficient customer management.

This made it possible to achieve a high level of satisfaction: the average rating of customers was slightly higher than the previous year.

The specialisation activities of the first-level structures continued in 2023 and this helped the consolidation of the percentage of cases managed directly during the first contact with the customer and therefore without the need for comparison with the other structures of the Bank, which stood at 87%, a figure well above the market average. On the other hand, the telephone abandonment rate was 12%.

During the year, the monitoring of outsourcers was intensified it was deemed as useful for identifying elements that could be improved both in terms of quality and process. Targeted training sessions were conducted that generated process efficiencies, resulting in a reduction of the management of customer reports also in terms of time.

The virtual assistant has confirmed the expected performance percentage, reaching 80% of correct answers against the 145,118 sessions started and 308,224 queries processed.

To promote the centrality of the customer and the reduction of contacts to the media center, predictive support logics were refined, with the aim of anticipating the customer’s demands before the customer even feels the need to activate the service input through a specific request. The total number of predictive messages was 562,408 with a 98% effectiveness of no recall in the 7 days following the message.

The use of the Video Banking Dialogue, which allows customers to interface remotely with the Bank in a “face to face” mode through a video call integrated into the Widiba platform, also recorded high approval in 2023. In fact, the rating was 4.7 out of 5, and the service level reached 81%.

The upward trend in market rates that has affected the credit sector from the end of 2022 also continued in 2023.

As regards *mortgages*, the volumes disbursed amounted to EUR 164 mln, following the slowdown in mortgage applications due to a prudent pricing positioning and the closure, starting from the end of July, of the offer in the online comparators.

With regard to *consumer credit*, the volumes of personal loans placed in 2023 amounted to EUR 16.4 mln, while the instant instalments volumes linked to My Instant Credit service amounted to EUR 8.8 mln.



With regard to *investment products*, the initiatives implemented to improve the product offer catalogue and the commercial initiatives continued along the main lines of sustainability and simplification, with the aim of developing new customers, increasing volumes and improvement of services.

With regard to sustainability, in September, Wave 2 of the SFDR Regulation was implemented with the introduction, in the MiFID questionnaire, of 3 additional questions aimed at acknowledging the interests and needs of customers with regard to more specific issues than just the propensity to the ESG issue; in detail, the Customer, who indicated a non-zero interest in ESG in the first question, is asked to express his interest in “sustainability”, “eco-sustainability” and PAI (Principle Adverse Impact) in terms of low or high interest.

On the asset management side, also following the related release, two management lines of the “System Portfolio no tunnel” catalogue were transformed into products compliant with ESG requirements (art. 8), alongside the 3 lines already present in the catalogue and at the beginning of 2024, 11 new management lines will be introduced (3 in the same “System Portfolio no tunnel” catalogue and 8 in the “System Portfolio a Tunnel” catalogue), thus allowing adequate coverage of ESG requirements in both catalogues.

On the bancassurance side, the year was particularly difficult, on the one hand, due to the aforementioned increase in customer interest in government securities which, on the other hand, entailed a significant risk of disaffection with First Class and Multi-Class products due to their resilience to update the rates of return, but also for a reduced feeling of need for capital guarantee; in addition to the macro-economic situation, in February, there was a block on Unit-Linked activities following the well-known events of Eurovita.

The **development and monitoring of the offer** concerned all areas of investment products through:

- the launch of a new partnership on the ETF segment with Legal and General, alongside that with Vanguard and JP Morgan, increasing the possibility of diversification;
- the release of 2 commercial campaigns on investment insurance products aimed at supporting the difficult year and reducing customers outflow;
- the launch of a commercial campaign on asset management initially lasting six months, but then extended throughout 2023, which allowed an increase of approximately 15% in volumes;
- the launch of seven window funds by Anima SGR to make available to customers instruments consistent with the Italian macro-economic situation in order to provide possible substitutes for investing in BTPs albeit with greater diversification and comparable (if not higher) returns.

Communications

During 2023, Banca Widiba continued its marketing activities and investments in communication, with the aim of strengthening its market positioning and encouraging the commercial proposition as well as acquiring new customers. The communication strategy focused on differentiating topics for the brand, creating numerous opportunities for engagement with prospective customers and with the network of consultants, while maintaining a control over national and sector media. With regard to the acquisition of new customers, in 2023, work continued on improving the onboarding process. This work focused both on the creation of a new graphic interface, with the aim of making the opening of the current account more friendly in mobile devices, and on various developments that have affected the process of recognition and account opening.

SPID was confirmed as the identification preferred method for the majority of new customers, having been chosen in almost half of account openings (approximately 44%) and even in approximately 68% of cases if only self-service customers are considered.

Awareness, consideration and reputation of the brand

In January 2023, Banca Widiba, in line with the objectives of the Business Plan for a strong relaunch of the brand on the market, launched the advertising campaign “*Il futuro è dei curiosi?*” (The future is for the curious), with the aim of supporting and increasing the brand awareness and consideration. In the total 10 weeks of programming, the campaign reached 42 million Italians, generating a 170% increase in traffic to the [bancawidiba.it](https://www.bancawidiba.it) website. The video of the commercial was viewed 2.4 million times, with a completed view rate of 90%. The campaign also won the “Golden Lion” of the 2023 MF *Banking Awards* as Best TV Campaign.

In 2023, the “recruiting campaign” was launched, a communication plan developed in two waves (May-July and November-December) to support the recruitment of new financial advisors, through the dissemination of advertising messages and in-depth content on the distinctive aspects of the Widiba advisory model, such as articles,



interviews and video-interviews with financial advisors, recruiting managers and directors, generating more than 50 times more traffic to the landing page than in the pre-campaign period.

All events focused on recruiting financial advisors were equally important. Banca Widiba participated as a sponsor in the two main national trade fairs: ConsulenTia 2023, more specifically the Anasf Conference entitled: “Largo ai giovani” [Make way for young people]! Innovation, sustainability and inclusion: the financial industry speaks to the new generations” and at the Vanguard conference “The evolution of consulting: comparison of models and tools”. In May, the 2023 edition of “Salone del Risparmio” [Savings Tradeshow] was held in Milan, during which a conference entitled “Banca Widiba e Peck: una visione che porta all’eccellenza” [Banca Widiba and Peck: a vision that leads to excellence] was organised. The events were well received both as an opportunity for visibility through video and radio interviews with industry newspapers and others, and as useful contacts for recruitment.

Banca Widiba has given continuity to the enhancement of its content by participating in over 30 open and closed-door events, round tables and industry and non-sector workshops held at national and international level. The involvement of management in the most important discussion forums has made it possible to consolidate the Bank’s positioning on topics related to financial consulting and recruiting, innovation and sustainability.

With regard to inclusion issues, in 2023 Banca Widiba completed the national research project “Donne e Denaro: una sfida per l’inclusione” [Women and Money: a challenge for inclusion] in collaboration with the Department of Psychology of “Università Cattolica del Sacro Cuore” of Milan, launched in 2022. Specifically, the second phase of the research entitled “Donne e Denaro: la consulenza finanziaria. Analisi e opportunità di una professione contemporanea oltre gli stereotipi di genere” [Women and Money: financial advice. Analysis and opportunities of a contemporary profession beyond gender stereotypes], developed in 2023, aimed at investigating the perceptions and beliefs related to the figure of the financial advisor, the working conditions of those who carry it out and, finally, at identifying some strategies to improve the perception of this profession by women. Furthermore, in August 2023 Banca Widiba joined “Carta delle donne in banca: valorizzare la diversità di genere”, [Women in Banking Charter: Valuing Gender Diversity], an initiative promoted by ABI to keep a constant focus on the value of equal opportunities in the banking sector.

With respect to the commitment in terms of financial education, in 2023 the partnership with Feduf, with which the planning of the Schools Project classrooms throughout the country continued, dedicated to students in Italian schools of various grades, to deepen their understanding of financial education topics.

In addition, 110 training events were organised with existing and prospective customers on the topics of financial resources, succession planning, generational transition, sustainability, inclusive finance, family budgeting, 24 of which were recognised by the Committee for the planning and coordination of financial education activities, October Edufin 2023.

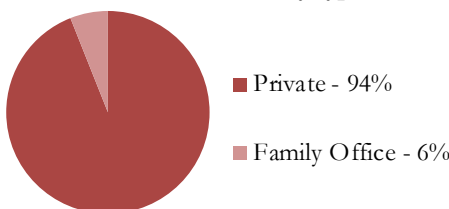
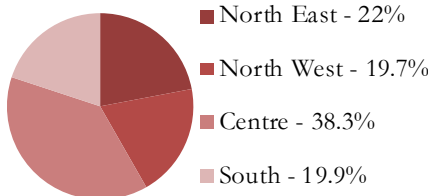
In addition, at the end of January and at the end of September, 2 road shows dedicated to the financial advisors in the local area, were organised for a total of 20 stopovers, with the participation of the management of Banca Widiba and with the aim of setting up meeting opportunities for the headquarters and the network.

Banca Widiba confirmed also in 2023 its commitment and its vocation in updating a user-friendly and effective banking experience model, carrying out projects with a high impact in terms of customer experience: new AOL, with the entire redesign of the process acquisition; new trading, with the restyling of the interfaces of the trading area of the private site; customer journey of the restricted lines in the native app and the private landing page.

In addition to the award for the Miglior Campagna TV (Best TV Campaign), Banca Widiba’s positive results were also recognised by the market, with the report for the fifth consecutive year in the Italian ranking of the Forbes World’s Best Banks, the award of the “Consulenza Finanziaria” (Financial Advice) Awards assigned by *Citywire* as “Miglior piattaforma online dell’anno” (Best Online Platform of the Year) and the “Social Community” award conferred at the Bluerating Awards, for “the careful monitoring of all available platforms and in particular for the effectiveness of the social communication of the campaign “*Il futuro è dei curiosi?*” (The Future is for the Curious).



Wealth Management

Business areas	Customers				
• Funding, lending, provision of insurance products, financial and non-financial services to private customers. • Services and products for high-standing customers in the areas of wealth management, financial planning, consultancy on not strictly financial services (tax planning, real estate, art & legal advisory). • Fiduciary and trust services (through the subsidiary MPS Fiduciaria).	There are around 35,500 private customers.				
	Breakdown by type  <table><tr><td>■ Private - 94%</td></tr><tr><td>■ Family Office - 6%</td></tr></table>	■ Private - 94%	■ Family Office - 6%		
■ Private - 94%					
■ Family Office - 6%					
	Breakdown by geography  <table><tr><td>■ North East - 22%</td></tr><tr><td>■ North West - 19.7%</td></tr><tr><td>■ Centre - 38.3%</td></tr><tr><td>■ South - 19.9%</td></tr></table>	■ North East - 22%	■ North West - 19.7%	■ Centre - 38.3%	■ South - 19.9%
■ North East - 22%					
■ North West - 19.7%					
■ Centre - 38.3%					
■ South - 19.9%					

Income statement and balance sheet results

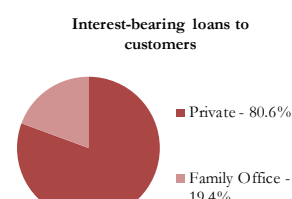
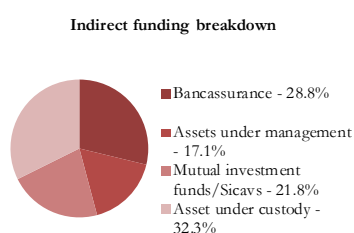
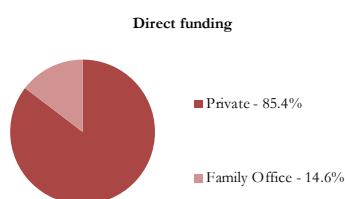
As at 31 December 2023, **Total Funding** in Wealth Management amounted to **EUR 18.0 bn**, up slightly compared to 30 September 2023 (EUR 0.5 bn) and EUR 1.0 bn on year end 2022, driven by assets under custody. More specifically:

- Direct Funding** came to **EUR 2.6 bn**, essentially stable compared to 30 September 2023 and to 31 December 2022;
- Indirect Funding**, amounting to **EUR 15.4 bn**, up by EUR 0.4 bn compared to 30 September 2023 and was up EUR 1.1 bn on the end of 2022 thanks to assets under custody (EUR +1.5 bn), while assets under management recorded a decrease of EUR 0.4 bn;
- Gross interest-bearing loans to customers** were essentially in line with both 30 September 2023 and the end of 2022, standing at **EUR 0.5 bn**.



WEALTH MANAGEMENT - BALANCE SHEET AGGREGATES

(EUR mln)	31/12/23	30/09/23	31/12/22	Chg Abs Q/Q	Chg % Q/Q	Chg Abs Y/Y	Chg % Y/Y
Direct funding	2,623	2,560	2,711	63	2.4%	(88)	-3.3%
<i>Assets under management</i>	<i>10,394</i>	<i>10,320</i>	<i>10,774</i>	<i>74</i>	<i>0.7%</i>	<i>(380)</i>	<i>-3.5%</i>
<i>Assets under custody</i>	<i>4,967</i>	<i>4,598</i>	<i>3,489</i>	<i>369</i>	<i>8.0%</i>	<i>1,478</i>	<i>42.4%</i>
Indirect Funding	15,362	14,918	14,263	443	3.0%	1,098	7.7%
Total Funding	17,985	17,479	16,974	506	2.9%	1,010	6.0%
Gross Interest-bearing loans to customers	519	531	570	(12)	-2.2%	(50)	-8.8%



With regard to profit and loss, Wealth Management achieved total **Revenues** of approx. **EUR 180 mln** as at 31 December 2023, up by 33.0% compared to the previous year. A breakdown of the aggregate shows:

- Net Interest Income amounted to approx. EUR 55 mln, up by EUR 50 mln compared to 2022, due mainly to the higher contribution from direct funding;
- Net fee and commission income amounted to EUR 110 mln, down 1.6% compared to 31 December 2022, reflecting, as in the case of Retail Banking, a lower contribution from asset management, only partially offset by higher income from assets under custody;
- Other Income from Banking and Insurance Business amounted to EUR 17 mln, down by EUR 2 mln YoY.

Considering the impact of operating expenses, which were down by 13.6% compared to the previous year (in line with the trends recorded by other operating segments and the Group), Wealth Management generated a **Gross Operating Income** of **EUR 71 mln** (EUR 9 mln at 31 December 2022). Including Cost of credit equal to EUR - 3 mln, the **Net Operating Income** totalled **EUR 68 mln**.

The non-operating components were equal to EUR +0.2 mln, essentially stable compared to 2022.

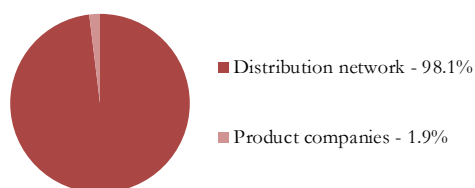
The **Profit (loss) before tax from continuing operations** was **EUR 68 mln** (EUR 8 mln as at 31 December 2022).

The **cost-income ratio** of the Operating Segment is **60.7%** (93.4% in 2022).

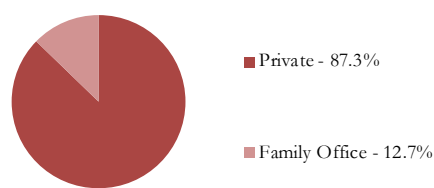


WEALTH MANAGEMENT - PROFIT AND LOSS AGGREGATES				
(EUR mln)	31/12/23	31/12/22	Chg. Y/Y	
			Abs.	%
Net interest income	54.9	5.0	49.9	n.m.
Net fee and commission income	109.8	111.7	(1.8)	-1.6%
Other Revenues from Banking and Insurance Business	17.0	19.1	(2.1)	-10.8%
Other operating expenses/ income	(1.3)	(0.0)	(1.2)	n.m.
Total Revenues	180.5	135.7	44.7	33.0%
Operating expenses	(109.6)	(126.8)	17.2	-13.6%
Pre Provision Operating Profit	70.9	9.0	61.9	n.m.
Cost of customer loans/Net impairment (losses)-reversals on securities and loans to banks	(3.2)	(1.4)	(1.9)	n.m.
Net Operating Income	67.7	7.6	60.1	n.m.
Non-operating components	0.2	0.2	0.1	31.3%
Profit (loss) before tax from continuing operations	67.9	7.8	60.1	n.m.

Breakdown of revenues



Distribution network - Breakdown of revenues



The main sales initiatives and product/service innovation

Promotional and marketing initiatives

In 2023, Private Banking Commercial Planning was developed along two main strategic drivers: **Development/Growth and Consulting**. For each area, various initiatives were launched, supported by levers and promotional offers for specific targets and customer clusters. In particular:

- **Development/Growth:** in order to achieve the objectives of growth in assets and new customers, the initiatives and promotional levers activated to foster the development of internal synergies have taken on particular importance, through the enhancement of the mutual potential existing between the corporate and private markets, as well as activities to support the value of existing private customers. In this context, in addition to initiatives aimed at recovering the assets transferred to other intermediaries activated on customers connected to outgoing operators, a specific focus was placed on monitoring the relationship with all customers and on growth through referral activities.
- **Consulting:** with a view to improving and enhancing the constant monitoring of the quality of the advisory service provided, specific initiatives were conducted in 2023 in order to provide customers with an efficient diversification of investments and all-round coverage of their financial and non-financial needs through the use of the entire range of offerings available. In particular, the focus has been on both enhancing the value-added investment solutions capable of making the portfolio more efficient, in relation particularly to the asset management service, and broadening the advisory approach in the financial sector to customers without advisory support.



Product/service innovation

In 2023, the offer of products and services for Private and Family Office customers was characterised by the development of new investment solutions and at the same time by the search for an increasing rationalisation and simplification of the offer.

The developments in the **insurance investment products** segment concerned the consolidation of the Wrapper offer (both multiline and unitline) with the regular update of the range of new external funds (mainly thematic and sectorial).

The insurance investment product offer dedicated to private and family office customers is characterised by high flexibility in the choice and composition of the financial instruments underlying the policies, through the possibility of selecting from a vast array of External and Internal Funds (available in the private suite) in addition to the segregated fund component present in the multi-line policy known as private choice. The offer is completed by the class I, *private prestige* policy.

In the area of assets under management, the **offer of Funds/Sicavs** is characterised by approximately 4,000 sub-funds being placed and continued with a view to the ongoing evolution of the offer, aimed at maintaining the high quality of the placement range thanks to agreements signed with the main Asset Managers.

In 2023, the main releases concerned:

- the placement of 10 new Anima window funds and 2 new JP Morgan AM window funds.
- the constant updating of the range of UCITS directly placed with all investment houses

As regards the **Wealth Management** sector, attention was further focused during the year on the search for investment solutions that would respond to new market trends dynamics, as well as to the needs expressed by customers in the specific market environment characterising the year 2023.

Training initiatives

Numerous activities have characterised the training of private market and family office resources in 2023, all of which were included in a programme called “Private Academy”, aimed at strengthening and enhancing the skills of bank employees and managers, through targeted courses held in collaboration with certified bodies and structures of high standing.

Through this, customers are supported by professionals who are always up-to-date and trained with standards at the highest levels of the market.

In 2023, the *private academy* was further enhanced with a programme dedicated to network management positions, aimed at training resources in both soft skills and technical competences.

The exam preparation course for the EFA certification, issued by EFPA, was also confirmed in 2023, which allowed for the important recognition of additional resources, thus bringing the number of EFA certificates to about 10 per cent of the private network.

With the support of investment houses partner, info-training initiatives were also carried out to provide specific and timely scenario-based support, so as to consolidate the skills necessary to deliver a customer service that meets the needs of the reference context. The training framework is completed by updates by the internal advisory structures on possible market scenarios, thus allowing portfolios to be adapted at a tactical level.

Communication initiatives

Numerous financial education topics were covered in the 20 initiatives throughout the country, with the participation of around 700 guests, including customers and prospects in the private and family offices segments. These events were organised in collaboration with the partner Investment Houses and were characterised by a paperless approach with a view to environmental sustainability.

Results for the subsidiary

MPS Fiduciaria: as at 31 December 2023, the subsidiary achieved a profit for the year of approximately EUR 0.38 mln (approximately EUR 0.3 mln as at 31 December 2022).

In 2023, the company assisted the Parent Company in its commercial initiatives aimed at expanding the dissemination of services, in particular the company liquidity management, escrow accounts, generational transfers of financial and business instruments, asset protection and assumption of the role of the Trustee of the Trust. It continued with its collaboration with the Parent Company's reference markets through intense promotional and



informational/training activities - on trust services in general and on their potential uses, including the private companies to which they can be applied - for bank personnel and for major professional audiences, using the number of contracted parties for the purpose of reporting merits. These activities made it possible to close the year with a net growth in the stock of deposits.

The guidelines for the future developments of the subsidiary involve a further relaunch of the commercial activity to be carried out mainly through a customised offer structure for the individual markets, but always with a view to synergies. The process of simplifying the network support material and the offer of specific training will continue, as well as the development of the network of professionals enable to report merits of trust services.



Corporate Banking

Corporate Banking includes the income statement/balance sheet results of corporate customers (SME, Corporate Client and small business segments), Foreign Branches, the merged entity MPS Leasing & Factoring (for the first half year of 2023 and for the entire 2022) and the foreign bank MP Banque;

Business areas	Customers								
• Lending and offering financial products and services to businesses, including through strategic partnerships with trade associations and Confidi (credit guarantee consortia), with Guarantee Institutions (including public) and Institutional Entities, through which funding is acquired at favourable terms. • Offer of integrated leasing and factoring packages for businesses, artisans and professionals (through the subsidiary MPS Leasing & Factoring until the merger). • Custody and deposit services for dairy products on behalf of third parties (through the subsidiary Magazzini Generali Fiduciari di Mantova S.p.A., which is also authorised to issue documents of title to the merchandise, providing for easier access to bank lending).	About 313,600 Corporate customers of the Parent Company, directly followed by Corporate Banking.								
	Breakdown by type <table><tr><td>■ SMEs and other companies</td><td>- 9.1%</td></tr><tr><td>■ Small Business</td><td>- 89.7%</td></tr><tr><td>■ Corporate client</td><td>- 1.2%</td></tr></table>	■ SMEs and other companies	- 9.1%	■ Small Business	- 89.7%	■ Corporate client	- 1.2%		
■ SMEs and other companies	- 9.1%								
■ Small Business	- 89.7%								
■ Corporate client	- 1.2%								
	Breakdown by geography <table><tr><td>■ North East</td><td>- 18%</td></tr><tr><td>■ North West</td><td>- 14.2%</td></tr><tr><td>■ Centre</td><td>- 38.5%</td></tr><tr><td>■ South</td><td>- 29.3%</td></tr></table>	■ North East	- 18%	■ North West	- 14.2%	■ Centre	- 38.5%	■ South	- 29.3%
■ North East	- 18%								
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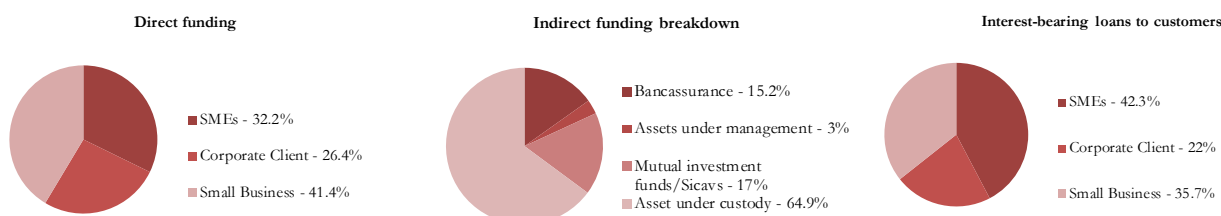
Income statement and balance sheet results

Total Funding from Corporate Banking as at 31 December 2023 amounted to **EUR 31.1 bn**, up compared to 30 September 2023 (EUR +0.8 bn), due to the increase in Direct Funding (EUR +0.4 bn) and Indirect Funding (+EUR 0.5 bn). The aggregate was also up compared to the end of 2022 (EUR +2.3 bn), as a result of the increase in Direct Funding (EUR +1.6 bn) and, in part, in Indirect Funding (EUR +0.7 bn).

With regard to lending, as at 31 December 2023, **Gross interest-bearing loans granted to Corporate Banking customers** stood at approximately **EUR 32.4 bn**, down compared to 30 September 2023 (EUR -1.4 bn).



CORPORATE BANKING - BALANCE SHEET AGGREGATES							
(EUR mln)	31/12/23	30/09/23	31/12/22	Chg Abs Q/Q	Chg % Q/Q	Chg Abs Y/Y	Chg % Y/Y
Direct funding	24,819	24,461	23,228	358	1.5%	1,591	6.8%
<i>Assets under management</i>	<i>2,215</i>	<i>2,274</i>	<i>2,477</i>	<i>(59)</i>	<i>-2.6%</i>	<i>(262)</i>	<i>-10.6%</i>
<i>Assets under custody</i>	<i>4,087</i>	<i>3,544</i>	<i>3,119</i>	<i>542</i>	<i>15.3%</i>	<i>968</i>	<i>31.0%</i>
Indirect Funding	6,302	5,818	5,595	484	8.3%	707	12.6%
Total Funding	31,121	30,279	28,823	842	2.8%	2,297	8.0%
Gross Interest-bearing loans to customers	32,409	33,853	33,044	(1,444)	-4.3%	(635)	-1.9%



For profit and loss aggregates, as at 31 December 2023, Corporate Banking **Revenues** came to approx. **EUR 1,534 mln** (+53.7% compared to the previous year). A breakdown of the aggregate shows:

- Net Interest Income was EUR 1,024 mln, up EUR 532 mln YoY mainly due to the higher contribution of commercial assets;
- Net Fee and Commission income amounted to EUR 491 mln as at 31 December 2023, up compared to the previous year (+0.9%);
- Other Income from Banking and Insurance Business amounted to EUR 24 mln, down slightly on the levels recorded as at 31 December 2022.

Considering the impact of Operating Expenses, down by 13.2% compared to the previous year, **Gross Operating Income** amounted to **EUR 1,020 mln** (EUR 407 mln as at 31 December 2022).

The **Net Operating Income** stood at **EUR 758 mln** (EUR 202 mln as at 31 December 2022), against a Cost of credit of EUR -262 mln (compared to EUR -205 mln as at 31 December 2022).

The non-operating components amounted to EUR -7 mln, compared to EUR -14 mln as at 31 December 2022.

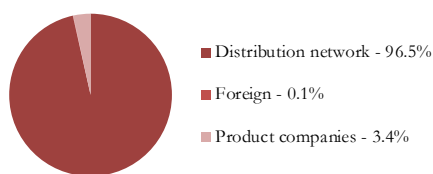
The **Profit (loss) before tax from continuing operations** was **EUR 752 mln** (EUR 188 mln as at 31 December 2022).

The **cost-income ratio** of Corporate Banking stands at **33.5%** (59.3% as at 31 December 2022).

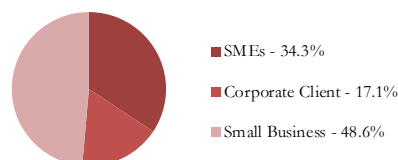

CORPORATE BANKING - PROFIT AND LOSS AGGREGATES

(EUR mln)	31/12/23	31/12/22	Chg. Y/Y	
			Abs.	%
Net interest income	1,024.1	492.0	532.1	n.m.
Net fee and commission income	490.9	486.5	4.4	0.9%
Other Revenues from Banking and Insurance Business	23.9	24.7	(0.8)	-3.2%
Other operating expenses/income	(4.6)	(4.9)	0.3	-5.9%
Total Revenues	1,534.2	998.3	536.0	53.7%
Operating expenses	(513.8)	(591.7)	77.9	-13.2%
Pre Provision Operating Profit	1,020.4	406.6	613.8	n.m.
Cost of customer loans/Net impairment (losses)-reversals on securities and loans to banks	(262.2)	(204.6)	(57.5)	28.1%
Net Operating Income	758.3	202.0	556.3	n.m.
Non-operating components	(6.7)	(13.6)	6.9	-50.8%
Profit (loss) before tax from continuing operations	751.6	188.4	563.2	n.m.

Breakdown of revenues



Distribution network - Breakdown of revenues


Results of the main subsidiaries

- **MP Banque³³**: profit of approximately EUR 5.3 mln as at 31 December 2023 compared to a loss of EUR 2.0 mln posted in 2022.

Main sales initiatives
Internet Corporate Banking

In 2023, the mapping of “signatories” on corporate banking was completed also for the group of more complex customers (medium/large corporate groups), equal to the remaining 1.3% of customers.

The strategy aimed at consolidating the assets, intervening on the payment and prepaid functions with a review of the user experience in line with that of digital banking.

The rationalisation of the product catalogue led to the closure of the In.Te.S.A. Network service and the delisting of electronic keys (tokens).

In the last quarter of the year, particular attention was paid to the adjustment of the debit accounts of the corporate banking fees, to reduce the spreads resulting from the billing cycles.

³³ The performance indicated above is that calculated on an operational basis. Please recall that in 2018 the Parent Company approved the run-off of MP Banque



Companies

Loans

During 2023, support activities continued for companies to deal with the extraordinary and urgent need to contain the negative economic effects arising from the Russian conflict in Ukraine.

In order to provide liquidity support measures for Italian-based companies affected by this crisis, Banca MPS continued to offer products backed by guarantees from the Guarantee Fund “Temporary Crisis Framework” funding and Sace “SupportItalia”.

Section 2.2 of the “Temporary Crisis Framework” used for the release of the aforementioned products ended on 31 December 2023. These products will remain usable to allow the completion of pending transactions, until 30 June 2024.

On 22 June 2023, the 2016 Earthquake Repair and Reconstruction Commissioner and Banca MPS have signed a memorandum of understanding to reserve a pool of EUR 200 mln in credit linked to use of the 110% Supersismabonus in reconstruction areas of Central Italy; the reconstruction of private buildings in the four regions affected by the earthquake seven years ago – Abruzzo, Lazio, Marche and Umbria – can therefore also benefit, until 2025 and in addition to the earthquake bonus, from the super bonus backed by the transfer of the tax credit and invoice discount. This memorandum of understanding aims to promote urban recovery and reconstruction activities, with renovation, energy requalification and safety measures for buildings to reduce seismic risk and offer a better recomposition of the building fabric of the Central Apennines.

During 2023, the Bank continued – through the SACE “Green New Deal” Guarantee – to support projects relating to environmental objectives (climate change mitigation; adaptation to climate change; protection of water and marine resources; circular economy; prevention and reduction of pollution; and protection and restoration of biodiversity and ecosystems) under the so-called “Green New Deal”. This allowed an increase in market share as well as stronger customer relations, also due to lower capital absorption (RWA).

On 5 April 2023, Banca MPS joined the Lombardy Region Framework Agreement concerning the activation of financial instruments on the 2021-2027 ERDF program and on the regional resources. Joining constituted a prerequisite for participation in the individual specific initiatives governed by special technical measurement datasheets prepared and published by the Lombardy Region also through Finlombarda S.p.A., which acts as the managing entity on behalf of the Region itself.

On 11 May 2023, the Parent Company joined the following technical measurement datasheets for which it issued specific financing products:

1. “Investments – Business Development Line” measurement in implementation of Regional Executive Order no. XI / 7595 of 15 December 2022;
2. “Investments – Investment Attraction Line” measurement in implementation of Regional Executive Order no. XI / 7595 of 15 December 2022;
3. “Investimenti – Green Line” measurement in implementation of Regional Executive Order no. XI / 7595 of 15 December 2022.

On 9 November 2023, Banca MPS signed an Agreement with “Artigiancredito Consorzio Fidi della Piccola e Media Impresa Società Cooperativa” which acts as lead enterprise of the Temporary Association of Enterprises called “ATI Fondo Multiscopo Emilia-Romagna” [Emilia-Romagna Multi-Purpose Fund], concerning the disbursement of loans from the “Fondo Regionale Multiscopo di Finanza Agevolata” [Regional Multipurpose Fund for Subsidised Finance] on a basis of private partnership.

By executing this agreement, the Bank will be able to disburse loans on the two segments of the Multi-Purpose Fund:

- the Growth segment, which includes, among others, the objective of encouraging the creation of new businesses and female entrepreneurship, supporting the growth of new SMEs;
- the Green-ER Energy segment, whose objectives are to encourage energy efficiency and energy requalification processes in companies, to support the construction of energy production plants from renewable sources, and to support the development of energy communities and interventions for process circularity.

Ismea has made operational the new guarantee issued free of charge, the so-called “GR8”, which assists financing used for the construction of renewable energy plants, with 100% coverage of the financing granted. By decision C 9090 of 18 December 2023, the European Commission has authorised the extension of the duration of aid schemes SA.103166 and SA.108084, relating to the “GR8” Guarantees, as a result of which the deadline for submitting guarantee applications has been extended until 7 June 2024, without prejudice to the granting of further extensions.



Subsidised financing

The Parent Company has continued to develop the network of local and national relations both through specific territorial centres (agri-food centres) and through the creation of subsidised finance specialists with the aim of improving interaction and relations with customers and taking advantage of the opportunities provided by the NRRP and subsidised finance as a whole.

Subsidised finance centres and specialists:

- play a proactive and advisory role in identifying and analysing the subsidy measures available in the area of competence, favouring the development of projects that have a positive impact on company development;
- offer solutions to guide companies towards a development process characterised by innovation, digitisation and sustainability.

MPS's value proposition is to position itself as the single point of a complete and "ready-to-use" customer solution; in this context, with a view to further enhancing the subsidised finance segment so as to ensure more widespread and timely support to the Network and customers and increase the segment's commercial effectiveness, collaborations were consolidated with counterparties with proven experience in advisory on subsidised finance aimed at:

- guiding companies in the process of relaunch and modernisation;
- providing specialised advice to companies on the sustainability of their business and assist them in obtaining ESG certification;
- offering customers a "turnkey" professional service: specialised advisory support for the Bank's corporate customers - with particular attention to those without reference consultants - enriching in fact the range of the Bank's offer with a qualified and distinctive service performed by referenced Counterparties;
- providing a strategic, synergistic and complementary proposal with banking activities.

The Bank, in order to raise awareness of the possibilities and instruments of subsidised finance, increase contacts and business opportunities and develop innovative methods of engaging businesses starting from consulting and not from the product, is engaged in an articulated process of further strengthening the know-how of its network on the potential of subsidised finance.

SMEs and Corporate Clients

Focus on business activities in favour of people and territories, supporting development projects and the activities of local economies, strengthening the mission of "Banca dei Mestieri", through specific initiatives and products, integrating environmental, social and governance (ESG) criteria within investment and lending policies and exploiting the potential of the NRRP. The opportunities linked to the NRRP also represent a significant lever for the expansion of the customer base through important development activities, identifying high potential companies to guarantee an increase in both lending and revenues.

The Network commercial focuses mainly concerned:

- support for investment and expansion projects of companies located in the regions covered by the European Investment Fund's SME Initiative - in which the Bank has participated - called "SME Initiative" (Abruzzo, Basilicata, Calabria, Campania, Molise, Puglia, Sardinia and Sicily) which has provided until mid-December 2023 for the disbursement of loans that have benefited from a reduction in the economic conditions applied equal to the benefit obtained by the Bank from the synthetic securitisation transaction backed by a guarantee provided by the European Investment Fund;
- offering companies with greater business complexity a structured advisory and proactive commercial approach (so-called "Coverage Team") which, through the reference relationship manager, guarantees personalised customer service, leveraging the Group's range of products and services and the support of specialists and product factories;



- meeting the needs of medium, small and micro enterprises operating in the agri-food sector through the activities of the 15 Agrifood Centres (located throughout Italy in the areas with the greatest agricultural potential) launched as part of the MPS Agroalimentare project [MPS Agri-Food project], which evolved into the “Banca Verde AgriDOP” project in 2023. This project makes use of the Bank’s internal professionals, specialised in providing personalised advice to companies operating in the “Dop Economy” sector, with the aim of being ready to respond to the various challenges that the agri-food sector is called upon to face, through a long-term strategy (ecological transition, launch of the European Green Deal programme aimed at achieving a circular, efficient and sustainable economy as well as technological innovation), and to support and assist agricultural entrepreneurs (including artisans, traders, and tourist operators active in the agri-food chain) in their financing choices, in particular through specialised consultants and the offer of distinctive products (from loans to protection policies). Upon joining the CDP/MASAF1 Agreement for the IV Call for Proposals for the supply chain project, Banca MPS has endorsed 15 supply chain agreements as an authorised bank, and continues its CDP FRI co-financing activities with 197 resolutions for more than EUR 207 mln under the above-mentioned agreement.
- support to exporting and importing companies in the advanced operations of *Trade Finance* and *Transaction Banking* also in light of international developments and the changed geo-political environment, also with regard to countries subject to restrictions, a trade activity carried out in the network thanks to the peripheral support of both commercial and operational specialists;
- the development and dissemination of digital channels to complete the opening and activation of the *Paskey Azienda Online* - PAO service, to increase the penetration and use of the services available online (online advance payments, online documents) and subscription of the FEA [Advanced Electronic Signature]. The developments focused on the needs of more structured customers, especially in the field of digitalisation, with the “PEC to PEC” initiative, which allows the signing of bilateral agreements with the approval of terms and conditions directly via digital signature and transmission via certified email;
- the proposition of products aimed at guaranteeing the stability and continuity of the company and promoting welfare measures. In 2023, the placement of the accident prevention welfare policy continued, representing the first advanced solution in the Bancassurance area and bringing small and medium-sized companies closer to corporate Welfare through a cover aimed at accidents at work and away from workplaces, alongside a “welfare cards protection” service platform for the welfare of the individual and their families.

The value of the use of specialised services for developing the profitability of the transactions is confirmed.

Small Business

During 2023, there was a strong focus on commercial activities to support people and territories in the path of recovery and growth, confirming the definition of “Banca dei Mestieri”, with a strong focus on areas such as Tourism, Crafts and Agriculture.

The network commercial focuses mainly concerned:

- particular attention to the potential linked to the NRRP, whose opportunities represent an important lever with the proposal of dedicated targets in various areas (tourism, agri-food, female entrepreneurship, and agrisolar park), activating a credit fast track, with prioritisation during the process of decision-making and disbursement of loans to selected customers in the above-mentioned targets;
- a response to the needs of small and very small companies, but also of producing families operating in the agri-food sector by means of the agri-food project, which



is based on specialised training of resources and territorial strengthening, through intensified cooperation with regional financial institutions, trade associations and Confidi;

- the proposition of products aimed at guaranteeing company stability and continuity, both in the field of welfare, with the *Protezione Welfare Infortuni* [Accident Welfare Protection] policy, and in the field of asset, personal and health, protection, according to the *Formula Benessere* [Welfare Formula] and *Tutta la vita* [Throughout Life] policies and the *Protezione Business* [Business Protection] policy which was revised in 2023, making it even more responsive to customers' needs;
- the development and dissemination of digital channels and services (*Paskey Azienda Online* - PAO), to increase the penetration and use of the services available online (online advance payments, online documents), proposing products that promote the digitisation of payments and e-commerce. In the field of acquiring services, the Bank focused in particular on encouraging the digitalisation process of "micro merchants", through initiatives and offers such as Nexi Welcome (in partnership with Nexi). The offer was enhanced with SoftPOS, an app developed by Nexi that allows the use of smartphones or tablets to accept payments with contactless cards and digital wallets; SoftPOS can be used as a main POS or as an additional POS. Furthermore, initiatives were activated that provide for a free fee for six months on the SmartPOS and POS Cordless range, and "Offerta Zero" [Offer Zero] was confirmed, which provided for a free fee until 30 June on some models of the SmartPOS and traditional POS range;
- the provision throughout the year, by means of the "MPS4Business" initiative, of a number of levers that can be used in commercial propositions on favourable terms with respect to the standard, in the areas of Financing, Protection, E-Money and Digital Services, and New Customer Development.

Leasing

Leasing activities in 2023 showed a contraction in trading activities compared to financial year 2022, closing with -46% compared to last year, consistent with the commitment to reduce the lease portfolio and with the commercial policies aimed at a greater range of transactions, an allocation of capital to more deserving customers and an increase in the level of overall profitability.

Several activities characterised the leasing business dynamics, both from purely commercial and operational points of view.

In fact, significant recourse to public interventions continued all year round through the use of benefits granted at national level (in particular Sabatini/MCC) which contributed to the use of financial leases.

On the one hand, these opportunities led companies to make investments with both high technology and low environmental impact (in 2023, over 481 Sabatini applications for a value of approximately EUR 91 mln, of which 59% Sabatini 4.0 and 41% ordinary Sabatini), and on the other hand, facilitated access to credit through the guarantee offered by Mediocredito Centrale, which also allowed to record new business (net of the advance paid by the customer) that saw the level of coverage of guaranteed loans equal to approximately 31%. In fact, around 796 applications were submitted and accepted at MCC over the year for a guaranteed value of more than EUR 122 mln.

The development of commercial activities, also supported by the guidelines of the European Next Generation plan, has consolidated in 2023 some specific initiatives already started in the previous financial year, also through the implementation of the NRRP:

Among these, the increasing focus on ESG financing with a particular emphasis on initiatives with positive ESG impacts, also related to circular economy issues, is of relevance.

Lastly, the merger of MPSL&F into BMPS consolidated the initiatives of previous years aimed at increasing cross-selling.



Factoring

The sale activity, developed in strong synergy with the individual DTIPs, focused in particular on:

- the development of new transferring transactions *for non-recourse factoring activities and purchase of receivables, intercepting existing business opportunities with already loyal customers who had never activated factoring transactions;*
- consolidation of existing factoring relationships, through actions aimed at optimising existing lines/limits and further increasing them and revitalising those less used;
- tailor-made follow-up, alongside Large Corporate managers, to support corporate customers of high standing for particularly complex transactions of more significant entities;
- focus on customer support in the area of Supply Chain Financing, in order to ensure optimised management of the liquidity of the entire production chain with particular reference to some sectors including the agri-food world. In particular, the activity concerned the expansion of agreements for both Reverse Factoring and Confirming;
- gradual technological upgrade of the platform and gradual development of the Digital Factoring project with the aim of always being aligned with market best practice.

Finally, the incorporation of MPSLF has made it possible to best express the potential arising from the product know-how held in the former MPSL&F with the need to meet, also with customised solutions, the needs of customers by streamlining and simplifying the process of recruiting product specialists to work alongside the Bank's corporate managers.

The result of the synergy expressed was an increase in factoring loans of approximately + 25% compared to the previous year and against a market performance (source: Trade Association - Assifact - as at 30 November 2023) down by -0.45 %.



Large Corporate & Investment Banking

Large Corporate and Investment Banking includes the economic / financial results of Large Corporate customers, the Corporate Finance and Investment Banking and Global Market business units and the merged entity MPS Capital Services Banca per le Imprese S.p.A. (for the first half of 2023 and for the full year in 2022).

Business areas	Customers
• Credit brokerage aimed at specialised follow-up; provision of tailor-made products and services with a view to coverage teams; cross-fertilisation of skills between group resources and financial products and services for businesses, also through strategic collaboration with institutional entities. • Corporate finance: mid- and long-term lending, corporate finance and structured finance.	Approximately 1,030 Large Group customers of the Parent Company are directly supported by Large Corporate & Investment Banking.

Income statement and balance sheet results

Total Funding from Large Corporate & Investment Banking as at 31 December 2023 amounted to **EUR 11.2 bn**, up by EUR 1.2 bn compared to 30 September 2023 due to the increase in Direct Funding (EUR +0.7 bn) and in Indirect Funding (EUR +0.5 bn). The aggregate was also up compared to the end of December 2022 (EUR +1.7 bn), as a result of the increase in Direct Funding (EUR +1.6 bn).

With regard to lending, as at 31 December 2023, **Gross interest-bearing loans to Large Corporate & Investment Banking customers** stood at **EUR 3.9 bn**, up by EUR 0.4 bn compared to 30 September 2023.

Large Corporate and Investment Banking - BALANCE SHEET AGGREGATES							
(EUR mln)	31/12/23	30/09/23	31/12/22	Chg Abs Q/Q	Chg % Q/Q	Chg Abs Y/Y	Chg % Y/Y
Direct funding	3,257	2,559	1,616	698	27.3%	1,640	n.m.
<i>Assets under management</i>	<i>37</i>	<i>37</i>	<i>37</i>	<i>0</i>	<i>-1.3%</i>	<i>0</i>	<i>-1.2%</i>
<i>Assets under custody</i>	<i>7,935</i>	<i>7,466</i>	<i>7,843</i>	<i>469</i>	<i>6.3%</i>	<i>93</i>	<i>1.2%</i>
Indirect Funding	7,972	7,503	7,880	469	6.2%	92	1.2%
Total Funding	11,229	10,062	9,496	1,167	11.6%	1,733	18.2%
Gross Interest-bearing loans to customers	3,942	3,569	5,580	372	10.4%	(1,638)	-29.4%

In terms of income, *Large Corporate & Investment Banking* realised **Revenue** in the amount of **EUR 235 mln** as at 31 December 2023 (+23.9% compared to 2022). A breakdown of the aggregate shows:

- Net Interest Income amounted to EUR 128 mln, down by EUR 7 mln YoY;
- Net Fee and Commission income was up 23.9% compared to 2022, to stand at EUR 56 mln;
- Other Revenues from Banking and Insurance Business amounted to EUR 50 mln, up compared to the previous year (EUR 9 mln), thanks to the positive trend recorded for finance activities by the merged entity MPS Capital Services.



Considering the impact of Operating Expenses, down by 25.0% compared to 31 December 2022, **Gross Operating Income** came to **EUR 156 mln** (EUR 84 mln compared to 31 December 2022).

The **Net Operating Income** stood at **EUR 155 mln** (EUR 37 mln as at 31 December 2022), against an essentially zero Cost of credit (compared to EUR -47 mln as at 31 December 2022).

The non-operating components were equal to approx. EUR -14 mln, improved compared to EUR -62 mln in 2022.

The **Profit (loss) before tax from continuing operations** was **EUR 142 mln** (EUR -25 mln in 2022).

The Large Corporate Banking & Investment **cost-income ratio** stood at **33.7%** (55.7% as at 31 December 2022).

Large Corporate & Investment Banking - PROFIT AND LOSS AGGREGATES				
(EUR mln)	31/12/23	31/12/22	Chg. Y/Y	
			Abs.	%
Net interest income	127.8	134.7	(6.8)	-5.1%
Net fee and commission income	56.1	45.3	10.8	23.9%
Other Revenues from Banking and Insurance Business	50.3	8.8	41.5	n.m.
Other operating expenses/ income	0.7	0.9	(0.2)	-24.3%
Total Revenues	234.9	189.6	45.3	23.9%
Operating expenses	(79.2)	(105.6)	26.4	-25.0%
Pre Provision Operating Profit	155.7	84.0	71.7	85.4%
Cost of customer loans/Net impairment (losses)-reversals on securities and loans to banks	(0.4)	(46.9)	46.6	-99.3%
Net Operating Income	155.4	37.0	118.3	n.m.
Non-operating components	(13.8)	(61.8)	48.0	-77.7%
Profit (loss) before tax from continuing operations	141.6	(24.8)	166.3	n.m.

Main sales initiatives

Large Corporate

In 2023, *Large Corporate* focused its activities more on the specific aspects of this market, in particular by improving the qualitative and quantitative components in terms of share of wallet. The territorial coverage was further strengthened also through products and services with higher added value, therefore more profitable for the bank. An important point was the strengthening of the role of commercial bank through the channelling of collections and payments, essential elements to boost both funding and lending. All this with the help of the support structures CIB, Factoring, Leasing, Abroad, and thanks also to a particular attention paid to the people of the structure.

With regard to Funding, particular attention was paid to the role of Banca MPS as also partner in the management of company liquidity, in line with the operating trends of customers that determine the timing of investments, with the aim, therefore, of stabilising the volumes of the deposits. Along with this activity, the activities concerning indirect funding aimed not only at corporate customers, but also at financial institutions, continued. This resulted in a significant increase in volumes compared to the 2022 financial year, while at the same time reinforcing customers' belief in the bank's ability to attract and manage liquidity efficiently even in an environment of rising interest rate, as was the case in 2023.

With regard to loans, adequate and constant financial support was ensured to customers, with particular regard to the methods of intervention, carefully analysing the associated risks in order to preserve the quality of the loan portfolio by prioritising "secured" type interventions through guarantee bodies. (in particular SACE). In each area, the management of the price to market, i.e. the expected profitability based on the risk taken, has remained vigilant.

In addition to commercial loans and medium/long-term financing, to complete the range of products offered to customers, the use of direct and indirect factoring transactions was significantly increased, the latter also serving non-Large Corporate transferor customers, managed in other bank service models.



Large Corporate financing was granted to all sectors, from industrial to tertiary; a particular focus was however on the agri-food sector, identifying commercial opportunities for the supply chains of the large Italian “leading companies”, aiming to promote the transformation and sustainable growth of the suppliers of the same supply chains.

The search for opportunities related to the National Recovery and Resilience Plan (NRRP) and to customer companies engaged in ESG investments, increased.

The activity of revaluation of the entire portfolio continued with a view to optimising capital absorption and limiting overall risk; the exchange for synergy purposes with the Bank’s product/service specialists was further increased, in order to enhance and integrate the offer also through hedging instruments.

Completing the control of the traditional revenue components and the development of additional fee and commission income was the synergic activity with the Foreign Function: the constant attention paid to *Large Corporate* customers operating on international markets, through customised solutions related to the needs expressed, allowed the execution of transactions with leading counterparties on foreign markets with interesting economic returns. This operational approach has made it possible to seize certain opportunities despite the complex new macroeconomic and geopolitical scenarios that are becoming increasingly significant in both the export and import spheres.

Corporate finance

Project Financing and Real Estate – In 2023, the Bank has confirmed its positioning amongst the leading banks in Italy for loans to the renewable energies sector and for infrastructure using Project Financing, as well as in the Real Estate sector with significant initiatives for property requalification and qualified institutional customers (e.g. Real Estate Funds).

Corporate Finance – Although in a persistent general context of increase in the costs of production factors, also as a result of geopolitical tensions, the granting of loans in the year 2023 developed continuously and concerned, in particular, support to companies operating in the industrial (*paper, steel, environmental, food*, etc. sectors), utilities, infrastructure and engineering sectors.

Acquisition Finance - During 2023, in a market environment that is still particularly positive with regard to M&A and private equity activity, the Bank has once again confirmed its significant competitive positioning in the acquisition and leveraged finance business in particular in the Mid Corporate segment for transactions of a highly industrial nature and with significant sales benefits.

Indeed, the Acquisition Finance Team continued to carry out activities for structuring the acquisition transactions in support of counterparties of high standing, focusing on business integrations carried out by corporate operators and also maintaining a strong foothold in the market for the LBOs promoted by the leading private equity operators in Italy.

Investment Banking

In a market environment characterised by marked increases in yields, the Bank has supported the Group’s reference customers in structuring and placing new bond issues, both through participation in placement syndicates and in the form of Minibonds.

With regard to activity on the primary debt market, Banca MPS continued to play an active role among the leading players in syndications for the placement of Italian government and corporate securities, participating, inter alia, as Joint Lead Manager and Bookrunner in the issuance of the new 8-year BTP Green, maturing in October 2031, as well as in the issuance of the new 8-year CCTeu, maturing in October 2031, in the context of an exchange transaction with selected short-term BTPs; in the corporate segment, it participated in the issue of a new 10-year Sustainability Linked Bond by HERA SpA.

In addition, in the role of Co-Lead Manager, it participated in the following government issues: new 20 and 30-year nominal BTPs, and 15-year inflation-linked BTPs.

In the Minibond segment, the Bank acted as Arranger and Underwriter in the EUR 5 mln issue of Dedem SpA.

The Bank continued its activities as Euronext Growth Advisor on behalf of Poligrafici Printing S.p.A. listed on the Euronext Growth Milan market of Borsa Italiana.

With reference to M&A Advisory activities, Banca MPS provided its services, assisting the Group’s reference corporate customers in extraordinary finance transactions.



Client Driven Finance

During 2023, activities in the markets and with customers achieved more than satisfactory results, characterised by very diverse trends.

With reference to the Specialist activity with the Italian Treasury, the activity that, in recent years, has placed the Bank in a position of absolute pre-eminence continued, enabling it, *inter alia*, to play important roles, also in 2023, in primary syndicated transactions placed with institutional investors.

The Sales and Financial Solutions structure continued to channel flows of institutional and corporate customers across the entire range of the business lines. With regard to institutional customers, there was a positive performance in the auction segment and in securities trading in the credit segment, both of which increased compared to last year, while securities trading in the government segment and derivatives business saw a y/y reduction in volumes, in line with the dynamics of the industry as a whole.

Hedging for the Parent Company's corporate customers recorded a significant reduction in volumes on foreign exchange, as a result of lower volatility on the euro/dollar cross, as well as on commodities, in light of the sharp fall in commodity prices, especially in the energy sector. Interest rate hedges also fell sharply, mainly due to the rapid and substantial increase in market rates. This trend was observed both in relation to the flow business with retail and Large Corporate customers, and on hedges related to specialised lending transactions structured by Corporate Finance.

The Global Markets structuring teams continued to search for solutions for investment products suited to market conditions: the level of interest rates made it possible to offer both the retail and private segments of the Group, solutions developed with the insurance partner Axa that were innovative and competitive with the bond segment; at the same time, business lines of structured issues that had been absent in previous years were reopened and received good commercial success.

The management of portfolios serving client-driven activities continued with careful risk management, with Var metrics in line with previous quarters.

Network coverage

In the second half of 2023, in line with the project for the merger of MPS Capital Services and the consequent expansion of the scope of the CCO Large Corporate & Investment Banking Department, the Bank's commercial organisational model was strengthened/implemented with the creation of a structure called "CIB Coverage", reporting directly to the Marketing, Sales & Coverage structure.

In terms of corporate & investment banking products, the CIB Coverage function contributed to the commercial development of the corporate market, providing specialist support to the distribution network of Banca MPS, in the transactions and meetings with customers.

Corporate Centre

The Corporate Centre includes:

- the income statement and balance sheet results of Non-Performing customers managed centrally by the Non-Performing Loans Unit;
- head office units, particularly with regard to governance and support functions, proprietary finance, the "asset centre" of divisionalised entities, which comprises in particular: proprietary finance activities, treasury and capital management;
- business service and support units, particularly with regard to the development and management of information systems.

The Corporate Centre also includes the offsetting of intragroup entries and the results of the companies consolidated under the equity method and those held for sale.

With regard to Non-Performing customers managed centrally by the Non-Performing Loans Unit, as at 31 December 2023, Gross interest-bearing loans to customers amounted to *EUR 1.4 bn*; the contribution to the economic results of the Corporate Centre was EUR 7 mln in Revenues, EUR -44 mln in Operating Expenses and EUR -55 mln in the Cost of Credit.



With regard to finance activities, sales of securities realised in 2023 amounted to EUR 617 mln, mainly classified at amortised cost; securities amounting to approximately EUR 1,947 mln are overdue, almost entirely classified in the portfolio of financial assets measured at fair value through other comprehensive income. As partial offsetting, securities were repurchased for approximately EUR 1,717 mln, classified at amortised cost.

Equity investment management

In 2023, the Group continued to rationalise its equity investment portfolio.

At the Banking Group level, in addition to the mergers by incorporation described below, to be noted is the acquisition of total control of the special purpose vehicle Siena Lease 2016-2 S.r.l., as well as its liquidation, and the liquidation of the special purpose vehicles Siena Mortgages 09-6 S.r.l. and Siena Mortgages 10-7 S.r.l.

The following is a detailed list of the most significant transactions carried out during the financial year.

Acquisitions

The Parent Company has acquired additional shares of the company Autovie Venete S.A.A.V (final stake held equal to 0.837% of the share capital) through the exchange of shares of the company Finanziaria Regionale Friuli-Venezia Giulia S.p.A. (stake held following the transaction equal to 0.358% of the share capital).

Following the completion of the loan restructuring and conversion transaction, equity instruments of Società Cooperativa Muratori & Cementisti – C.M.C. di Ravenna were acquired.

Mergers/ Absorptions

On 24 April 2023 and 29 May 2023, the mergers by incorporation into the Parent Company of the wholly-owned subsidiaries MPS Leasing & Factoring Banca per i Servizi Finanziari alle Imprese S.p.A. and MPS Capital Services Banca per le Imprese S.p.A. took effect for accounting and tax purposes as from 1 January 2023.

Disposals

The Parent Company divested the equity investments held in: Nomisma Società di Studi Economici S.p.A. (0.41% of the share capital), Sansedoni Siena S.p.A (1.09% of the share capital) and Veneto Sviluppo S.p.A (4.22% of the share capital). All Visa Inc Class A shares held were also sold.

At the conclusion of the respective liquidation procedures, the equity investments held in Argentario Approdi e Servizi S.p.A. in liquidation (8.90%), Brasilinvest & Partners S.A. (0.84%), Fingruppo Holding S.p.A. in liquidation (1.44%), Le Robinie S.r.l. in liquidation (20.00%) and Mercobank S.A. (0.12% of the share capital held by the subsidiary MPS Capital Services S.p.A.) were cancelled.

The participating financial instruments held in: Carlo Colombo S.p.A. (8.80% of total issued instruments), CIS S.p.A. (38.18% of total issued instruments), Mednav S.p.A. (6.27% of total issued instruments), RCR Cristalleria Italiana S.p.A. (51.60% of total issued instruments), River S.p.A. (21.85% of total issued instruments) and Vulcano S.p.A. (16.17% of total issued instruments), were also divested.



Prospects and outlook on operations

After the contraction in credit to the private sector recorded in 2023 with the drop in inflation, the start of monetary easing and the gradual overcoming of the phase of economic stagnation, credit to households is expected to return to positive and the decline of credit to businesses to come to a halt. Greater consolidation of credit expansion is expected in the medium term. The NRRP is expected to provide a stimulus to business investment, while construction investment will have to deal with the reshaping of incentives, especially in the residential sector. The gradual improvement in the financial situation of households, also thanks to the recovery in purchasing power, is expected to support consumption with positive repercussions on credit. The further use of liquidity by households and businesses will in any case slow down the demand for bank credit and may also reduce any outstanding debt positions through partial repayments.

The fragile economic situation, impacting on the ability of households and businesses to support debt, may result in an increase in credit risk with peaks in the short term. However, the greater attention of operators to disbursement criteria, the use of the extensive liquidity accumulated by households and businesses, and the low weight of floating-rate debt in disbursements to households are expected to help mitigate the worsening of credit deterioration and decay rates.

In the short term, households are expected to reallocate their liquidity towards longer maturity forms of funding that can guarantee a better return, and towards government bonds. The banking system is promoting this rebalancing by offering a higher remuneration on fixed-term deposits, also in order to maintain high funding ratios for regulatory purposes and to meet the repayment of liquidity acquired through TLTROs. Direct funding is expected to continue to decline, albeit at a slower pace than those recorded in 2023. At a sector level, outflows from current accounts are expected to continue and only partially be offset by the growth of other deposits and bonds, which are affected by the use of alternative forms of investment to banking channels (e.g. government bonds, postal bonds) and the use of part of the liquidity for consumption/investment needs.

The profitability of the system remains positive but is expected to slow down compared to the brilliant results of 2023, due to the banking spread expected to close from next year. In the medium term, i) the revenues generated by the fee and commission area are expected to contribute more to the profitability of the banks, in line with the better prospects for revenues from asset management/brokerage; ii) overhead and personnel costs, which increased in 2023, are expected to decrease, albeit conditioned by the investments required by the digital and green transformation.

Against this scenario, the Group's total revenue for 2024 will continue to be supported by the resilience on net interest income, despite the outlook for lower interest rates and an increase of cost of funding, thanks to an improved asset mix and the positive dynamics of commission income also supported by focused commercial initiative in wealth management.

With regard to the operating cost, efficiency actions aimed at containing the impacts of inflationary dynamics on costs, will continue. However, the dynamics of this aggregate will also be affected in the coming years by the effects of the renewal of the sector's CCNL - National Collective Labour Agreement – occurred in November 2023.

The risk cost for 2024 is expected to remain at same level as in 2023, due to the maintenance of high lending standards and the continuous improvement of the monitoring process.

The capital position is expected to remain at high levels.



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Consolidated balance sheet

Assets	31 12 2023	31 12 2022*
10. Cash and cash equivalents	14,317,277	12,538,578
20. Financial assets measured at fair value through profit or loss	6,251,563	6,756,687
a) financial assets held for trading	5,882,804	6,299,394
c) other financial assets mandatorily measured at fair value	368,759	457,293
30. Financial assets measured at fair value through other comprehensive income	2,477,256	4,352,328
40. Financial assets measured at amortised cost	90,544,417	88,464,613
a) Loans to banks	3,790,898	3,255,657
b) Loans to customers	86,753,519	85,208,956
50. Hedging derivatives	704,125	1,077,095
60. Change in value of macro-hedged financial assets (+/-)	(561,183)	(908,737)
70. Equity investments	726,691	750,678
90. Property, plant and equipment	2,228,699	2,375,926
100. Intangible assets	178,224	162,649
- of which goodwill	7,900	7,900
110. Tax assets	2,150,906	2,216,377
a) current	308,381	718,247
b) deferred	1,842,525	1,498,130
120. Non-current assets held for sale and disposal groups	76,232	65,497
130. Other assets	3,519,484	2,383,613
Total assets	122,613,691	120,235,304

* The balance sheet figures as at 31 December 2022 were restated, with respect to those published at the reporting date, following the retrospective application of IFRS 17 and IFRS 9 changes by the insurance associates.

*continues:* Consolidated balance sheet

Total Liabilities and Shareholders' Equity		31 12 2023	31 12 2022*
10.	Financial liabilities measured at amortised cost	105,026,527	103,283,390
	a) due to banks	14,498,833	21,382,759
	b) due to customers	80,422,081	73,349,626
	c) debts securities issued	10,105,613	8,551,005
20.	Financial liabilities held for trading	2,854,721	3,988,517
30.	Financial liabilities designated at fair value	111,325	97,027
40.	Hedging derivatives	330,193	301,568
50.	Change in value of macro-hedged financial liabilities (+/-)	(16,081)	(77,363)
60.	Tax liabilities	9,057	6,634
	a) current	3,601	16
	b) deferred	5,456	6,618
80.	Other liabilities	3,268,600	3,188,902
90.	Provision for employees severance pay	71,985	70,210
100.	Provision for risks and charges:	978,255	1,515,489
	a) financial guarantees and other commitments	154,276	142,474
	b) post-employment benefits	3,381	26,592
	c) other provisions	820,598	1,346,423
120.	Valuation reserves	27,929	(26,990)
150.	Reserves	445,297	611,894
170.	Share capital	7,453,451	7,453,451
190.	Non-controlling interests (+/-)	651	936
200.	Profit (loss) for the year (+/-)	2,051,781	(178,361)
Total Liabilities and Shareholders' Equity		122,613,691	120,235,304

* The balance sheet figures as at 31 December 2022 were restated, with respect to those published at the reporting date, following the retrospective application of IFRS 17 and IFRS 9 changes by the insurance associates.



Consolidated income statement

Items	31 12 2023	31 12 2022*
10. Interest income and similar revenues	4,364,169	2,149,721
<i>of which interest income calculated applying the effective interest rate method</i>	<i>3,633,660</i>	<i>1,863,740</i>
20. Interest expense and similar charges	(2,072,241)	(614,485)
30. Net interest income	2,291,928	1,535,236
40. Fee and commission income	1,556,206	1,584,991
50. Fee and commission expense	(230,582)	(227,013)
60. Net fee and commission income	1,325,624	1,357,978
70. Dividends and similar income	26,547	26,347
80. Net profit (loss) from trading	54,975	(23,749)
90. Net profit (loss) from hedging	(4,443)	6,177
100. Gains/(losses) on disposal/repurchase of:	9,972	52,082
a) financial assets measured at amortised cost	9,115	50,834
b) Financial assets measured at fair value through other comprehensive income	1,034	1,236
c) financial liabilities	(177)	12
110. Net profit (loss) from financial assets and liabilities measured at fair value through profit or loss	5,850	50,080
a) financial assets and liabilities designated at fair value	(3,121)	31,650
b) other financial assets mandatorily measured at fair value	8,971	18,430
120. Net interest and other banking income	3,710,453	3,004,151
130. Net impairment (losses)/reversals for credit riskon	(430,711)	(430,488)
a) financial assets measured at amortised cost	(431,165)	(430,286)
b) financial assets measured at fair value through other comprehensive income	454	(202)
140. Modification gains/(losses)	(6,827)	4,335
150. Net income from banking activities	3,272,915	2,577,998
180. Net income from banking and insurance activities	3,272,915	2,577,998
190. Administrative expenses:	(2,089,209)	(3,293,654)
a) personnel expenses	(1,192,047)	(2,321,832)
b) other administrative expenses	(897,162)	(971,822)
200. Net provision for risks and charges:	452,171	6,655
a) commitments and guarantees issued	(15,352)	(2,031)
b) other net provisions	467,523	8,686
210. Net adjustments to/recoveries on property, plant and equipment	(108,352)	(118,885)
220. Net adjustments to/recoveries on intangible assets	(67,284)	(68,586)
230. Other operating expenses/income	215,450	227,555
240. Operating expenses	(1,597,224)	(3,246,915)
250. Gains (losses) on investments	83,608	94,061
260. Net gains (losses) on property, plant and equipment and intangible assets measured at fair value	(53,144)	(31,111)
280. Gains (losses) on disposal of investments	353	838
290. Profit (loss) before tax from continuing operations	1,706,508	(605,129)
300. Tax (expense)/recovery on income from continuing operations	345,117	426,620
330. Profit (loss) for the year	2,051,625	(178,509)
340. Net Profit (loss) attributable to non-controlling interests	(156)	(148)
350. Parent company's net profit (loss) for the year	2,051,781	(178,361)
	31 12 2023	31 12 2022*
Basic Earnings per Share (Basic EPS)	1.629	(0.850)
<i>of continuing operations</i>	<i>1.629</i>	<i>(0.850)</i>
Diluted Earnings per Share (Diluted EPS)	1.629	(0.850)
<i>of continuing operations</i>	<i>1.629</i>	<i>(0.850)</i>

* The income statement figures and basic and diluted earnings per share as at 31 December 2022 have been restated, compared to those published at the reporting date, following the retrospective application of IFRS 17 and IFRS 9 by insurance associates.

**Consolidated statement of comprehensive income**

Items	31 12 2023	31 12 2022*
10. Profit (loss) for the year	2,051,625	(178,509)
Other comprehensive income after tax not recycled to profit or loss	(29,495)	22,183
20. Equity instruments designated at fair value through other comprehensive income	(3,257)	2,310
30. Financial liabilities designated at fair value through profit or loss (change in the entity's own credit risk)	(2,761)	(3,512)
50. Property, plant and equipment	(20,943)	(20,042)
70. Defined benefit plans	4,460	9,411
80. Non-current assets held for sale	(2,415)	6
90. Share of valuation reserves of equity-accounted investments	(4,579)	34,010
Other comprehensive income after tax recycled to profit or loss	84,391	(210,443)
120. Exchange differences	(1,025)	688
130. Cash flow hedges	1,600	-
150. Financial assets (other than equity securities) measured at fair value through other comprehensive income	75,989	(166,132)
170. Share of valuation reserves of equity-accounted investments	7,827	(44,999)
200. Total other comprehensive income after tax	54,896	(188,260)
210. Total comprehensive income (Item 10+170)	2,106,521	(366,769)
220. Consolidated comprehensive income attributable to non-controlling interests	(180)	(167)
230. Consolidated comprehensive income attributable to Parent Company	2,106,701	(366,602)

* The values as at 31 December 2022 were restated, with respect to those published at the reporting date, following the retrospective application of IFRS 17 and IFRS 9 standards by the insurance associates.



Consolidated statement of changes in equity – 2023

	Balance as at 31 12 2022*	Change in opening balances	Balance as at 01 01 2023	Allocation of profit from prior year		Change during the year								Total comprehensive income as at 31 12 2023	Total equity as at 31 12 2023	Group equity as at 31 12 2023	Non-controlling interest as at 31 12 2023
				Reserves	Dividends and other payout	Change in Reserves \	Shareholders' equity transactions										
							Issue of new shares	Purchase of treasury shares	Extraordinary distribution of dividends	Change in equity instruments	Treasury share derivatives	Stock options	Change in equity Investments				
Share capital	7,454,061	-	7,454,061	-	-	-	-	-	-	-	-	-	(9)	-	7,454,052	7,453,451	601
a) ordinary shares	7,454,061	-	7,454,061	-	-	-	-	-	-	-	-	-	(9)	-	7,454,052	7,453,451	601
b) other shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Share premium	2	-	2	-	-	-	-	-	-	-	-	-	-	-	2	-	2
Reserves	611,082	-	611,082	(178,605)	-	14,395	(2,629)	-	-	-	-	-	(3)	-	444,240	445,297	(1,057)
a) from profit	738,746	-	738,746	(178,605)	-	16,190	-	-	-	-	-	-	(3)	-	576,328	577,385	(1,057)
b) other	(127,664)	-	(127,664)	-	-	(1,795)	(2,629)	-	-	-	-	-	-	-	(132,088)	(132,088)	-
Valuation reserves	(25,706)	-	(25,706)	-	-	-	-	-	-	-	-	-	-	54,896	29,190	27,929	1,261
Equity instruments	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Treasury shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Profit (loss)	(178,509)	-	(178,509)	178,605	(96)	-	-	-	-	-	-	-	-	2,051,625	2,051,625	2,051,781	(156)
Total Equity	7,860,930	-	7,860,930	-	(96)	14,395	(2,629)	-	-	-	-	-	(12)	2,106,521	9,979,109	9,978,458	651
Group Equity	7,859,994	-	7,859,994	-	-	14,395	(2,629)	-	-	-	-	-	(3)	2,106,701	9,978,458	9,978,458	X
Non-controlling interest	936	-	936	-	(96)	-	-	-	-	-	-	-	(9)	(180)	651	X	651

* The values as at 31 December 2022 were restated, with respect to those published at the reporting date, following the retrospective application of IFRS 17 and IFRS 9 standards by the insurance associates.

As at 31 December 2023, the Group's net equity, including non-controlling interests and net profit (loss) for the year, amounted to EUR 9,979.1 mln, compared to EUR 7,860.9 mln as at 31 December 2022, with an overall net increase of EUR 2,118.2 mln. This trend is mainly due to: (i) the profit for the year of EUR 2,051.6 mln, and (ii) to the net positive change in valuation reserves of EUR 54.9 mln, referring to the revaluation of debt securities measured at fair value through other comprehensive income partially offset by the write-down of property, plant and equipment.



Consolidated statement of changes in equity – 2022

	Balance as at 31 12 2021	Change in opening balances*	Balance as at 01 01 2022	Allocation of profit from prior year		Change during the year								Total Equity as at 31 12 2022	Group Equity as at 31 12 2022	Non-controlling interest as at 31 12 2022
				Reserves	Dividends and other payout	Shareholders' equity transactions							Comprehensive income as at 31 12 2022			
						Change in Reserves	Issue of new shares	Purchase of treasury shares	Extraordinary distribution of dividends	Change in equity instruments	Treasury share derivatives	Stock options				
Share capital	9,195,719	-	9,195,719	-	-	(4,240,990)	2,499,331	-	-	-	-	-	-	7,454,061	7,453,451	610,000
a) ordinary shares	9,195,719	-	9,195,719	-	-	(4,240,990)	2,499,331	-	-	-	-	-	-	7,454,061	7,453,451	610,000
b) other shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Share premium	2	-	2	-	-	-	-	-	-	-	-	-	-	2	-	2,000
Reserves	(3,639,130)	(166,791)	(3,805,922)	309,245	-	4,233,130	(125,371)	-	-	-	-	-	-	611,082	611,895	(813,000)
a) from profit	(3,520,765)	(166,791)	(3,687,556)	309,245	-	4,117,057	-	-	-	-	-	-	-	738,746	739,559	(813,000)
b) other	(118,366)	-	(118,366)	-	-	116,073	(125,371)	-	-	-	-	-	-	(127,664)	(127,664)	-
Valuation reserves	308,075	(145,521)	162,554	-	-	-	-	-	-	-	-	-	(188,260)	(25,706)	(26,990)	1,284,000
Equity instruments	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Treasury shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Profit (loss)	309,331	-	309,331	(309,245)	(86)	-	-	-	-	-	-	-	(178,509)	(178,509)	(178,361)	(148,000)
Total Equity	6,173,997	(312,312)	5,861,685	-	(86)	(7,860)	2,373,960	-	-	-	-	-	(366,769)	7,860,930	7,859,994	936,000
Group Equity	6,172,652	(312,312)	5,860,339	-	-	(7,704)	2,373,960	-	-	-	-	-	(366,602)	7,859,994	7,859,994	-X
Non-controlling interest	1,346	-	1,346	-	(86)	(156)	-	-	-	-	-	-	(167)	936	X	936,000

* The column "Change in opening balances" includes the impacts as at 1 January 2022 of the retrospective application of IFRS 17 and IFRS 9 standards by the insurance associates.

As at 31 December 2022, shareholders' equity amounted to EUR 7,860.9 mln, compared to EUR 5,861.7 mln as at 1 January 2022, a total net decrease of EUR 1,999.2 mln. The most significant phenomena impacting the net equity, in addition to the EUR 178.5 mln loss for the year, were the following.

On 15 September 2022, the Extraordinary Shareholders' Meeting of the Parent Company resolved to cover the total loss, for a total amount of EUR 4,664.6 mln, reduced to EUR 4,567.6 mln due to the half-year profit of approximately EUR 97.0 mln, as follows:

- for EUR 326.8 mln through the use of available reserves;
- for the remainder of the loss, namely EUR 4,240.9 mln, the reduction in share capital, pursuant to art. 2446 of the Italian Civil Code.

After covering the losses, the share capital amounted to EUR 4,954.7 mln.

On 4 November 2022, in execution of the afore-mentioned Shareholders' Meeting resolution, the share capital increase with consideration was completed with the full subscription of the newly issued shares for a total value of EUR 2,499.3 mln, which involved in the column "Issue of new shares":

- increase in the "Share capital" item for the same amount;
- decrease in the item "Reserves - other" for EUR 125.4 mln, due to costs incurred for the transaction, net of the relative taxes.

The "Share capital" item of the Parent Company as at 31 December 2022 amounted to EUR 7,454.1 mln as a result of the aforementioned events.

Lastly, it should be noted that the valuation reserves show an overall decrease of EUR 188.3 mln, almost entirely attributable to the write-down of debt securities measured at fair value through other comprehensive income.



Consolidated cash flow statement - indirect method

A. OPERATING ACTIVITIES	31 12 2023	31 12 2022*
1. Cash flow from operations	1,871,639	(232,337)
Profit (loss) (+/-) for the year	2,051,625	(178,509)
Capital gains/losses on financial assets held for trading and on assets/liabilities designated at fair value (+/-)	(119,547)	(278,406)
Net gains (losses) on hedging activities	4,443	(6,177)
Net impairment losses/reversals	582,941	527,080
Net adjustments/recoveries on property, plant and equipment and intangible assets (+/-)	228,780	218,581
Net provisions for risks and charges and other costs/revenues (+/-)	(443,208)	2,725
Unpaid charges, taxes and tax credit	(345,117)	(426,620)
Other adjustments	(88,278)	(91,011)
2. Cash flow from (used in) financial assets	(526,557)	27,934,746
Financial assets held for trading	567,307	2,901,310
Other financial assets mandatorily measured at fair value	90,062	12,965
Financial assets measured at fair value through other comprehensive income	2,281,679	241,290
Financial assets measured at amortised cost	(2,810,014)	24,892,444
Other assets	(655,591)	(113,263)
3. Cash flow from (used in) financial liabilities	429,263	(19,320,947)
Financial liabilities measured at amortised cost	1,625,946	(17,840,071)
Financial liabilities held for trading	(1,163,373)	(295,763)
Financial liabilities designated at fair value	7,065	9,458
Other liabilities	(40,375)	(1,194,571)
Net cash flow from (used in) operating activities	1,774,345	8,381,462

* Comparative data were restated with respect to those published at the reporting date, following the retrospective application of IFRS 17 and IFRS 9 standards by the insurance associates.



B. INVESTMENT ACTIVITIES	31 12 2023	31 12 2022
1. Cash flow from	118,517	109,797
Dividends collected on equity investments	116,367	107,267
Sales of property, plant and equipment	2,150	2,530
2. Cash flow used in	(111,438)	(65,710)
Purchase of property, plant and equipment	(28,405)	(19,242)
Purchase of intangible assets	(83,033)	(46,468)
Net cash flow from (used in) investment activities	7,079	44,087
C. FUNDING ACTIVITIES		
Issue/purchase of treasury shares	(2,630)	2,371,349
issue/purchase of equity instruments carried at equity	-	-
Dividend distribution and other	(96)	(86)
Net cash flow from (used in) funding activities	(2,726)	2,371,263
NET CASH FLOW FROM (USED IN) OPERATING, INVESTMENT AND FUNDING ACTIVITIES DURING THE YEAR	1,778,698	10,796,812

Reconciliation

Accounts	31 12 2023	31 12 2022
Cash and cash equivalents at beginning of the year	12,538,578	1,741,766
Net increase (decrease) in cash and cash equivalents	1,778,698	10,796,812
Cash and cash equivalents at end of the year	14,317,277	12,538,578

The information required by IAS 7 paragraph 44 A and B is shown below.

	Items	31 12 2022	Cash flows	Non monetary changes		31 12 2023
				Fair value changes	Other	
10.	Financial liabilities measured at amortised cost	103,283,390	1,625,946	-	117,191	105,026,527
20.	Financial liabilities held for trading	3,988,517	(1,163,373)	29,577	-	2,854,721
30.	Financial liabilities designated at fair value	97,027	7,065	7,233	-	111,325
	Total	107,368,934	469,638	36,810	117,191	107,992,573



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A.1 – General

Section 1 - Statement of compliance with international accounting standards

Pursuant to Italian Legislative Decree no. 38 of 28 February 2005, these consolidated financial statements were prepared in accordance with the international accounting standards 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 2023.

The application of the international accounting standards was carried out by also referring to the “Systematic Framework for the preparation and presentation of financial statements” (Conceptual Framework), the *Implementation Guidance and Basis for Conclusions* documents and any other documents prepared by the IASB or IFRIC to complete the accounting standards issued.

For an overview of the standards endorsed during 2023 or those endorsed in previous financial years, whose application is scheduled for 2023 (or future financial years), please refer to “Section 5 - Other Aspects” below, which also describes the main impacts for the Group.

Communications of the Supervisory Bodies were also taken into account to the extent applicable (Bank of Italy, ECB, Consob and ESMA) and the interpretative documents on the application of IAS/IFRS prepared by the Organismo Italiano di Contabilità (OIC) [Italian Accounting Body], the Associazione Bancaria Italiana (ABI) [Italian Banking Association] and the Organismo Italiano di Valutazione (OIV) [Italian Evaluation Body], which provide recommendations on the information to be provided in the Financial Report, on certain aspects of greater importance in the accounting field, or on the accounting treatment of particular transactions.



Section 2 - General accounting standards

The Consolidated Financial Statements consist of the balance sheet, income statement, statement of comprehensive income, statement of changes in equity, the cash flow statement and the notes to the financial statements, and are accompanied by the directors' report on operations, financial results achieved, and the Group's equity and financial situation.

The consolidated financial statements as at 31 December 2023 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 eighth update of 17 November 2022.

The aforementioned update takes into account the new international accounting standard IFRS 17 "Insurance contracts", which replaces the previous IFRS 4 "Insurance contracts" from 1 January 2023, and subsequent amendments to other international accounting standards, including IAS 1 "Presentation of Financial Statements" and IFRS 7 "Financial Instruments: Disclosures". The amendments mainly concern the consolidated financial statements of conglomerate parent banks, mainly in the banking sector, as well as those of banks with equity investments in insurance companies consolidated for accounting purposes and which are not conglomerate parents. These changes had no significant impact for the Group, which uses the synthetic equity method to consolidate its equity investments in the share capital of the insurance companies AXA MPS Assicurazioni Danni S.p.A. and AXA MPS Assicurazioni Vita S.p.A.

The Group also took into account the Bank of Italy communication of 14 March 2023 "Update of the provisions of Circular no. 262 - Bank Financial Statements: layout and rules for preparation" regarding the impacts of COVID-19 and measures to support the economy", which repeals and replaces the previous communication of 21 December 2021 relating to the COVID-19 disclosure to be provided in the financial statements. The update, due to the changed pandemic-related scenario, eliminates the financial statement disclosure relating to moratorium-backed loans while requesting, in free format, financial statement disclosure on the loans subject to public guarantee. The provisions of the communication apply to financial statements closed or pending as at 31 December 2023.

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

The consolidated financial statements are prepared with transparency and provide a true and fair view of the financial position and income statement for the year of Banca MPS and its subsidiaries, as detailed in Section 3 "Scope and Methods of Consolidation" below.

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

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

Each item in the balance sheet, income statement and statement of comprehensive income also indicates the amount for the prior financial year, unless an accounting standard or interpretation allows or provides otherwise.

The financial statements provide, in addition to the accounting data as at 31 December 2023, the comparative information relating to the last financial statements approved as at 31 December 2022. In this regard, it should be noted that with the coming into force of IFRS 17 "Insurance Contracts", an accounting standard for which application is required on a retrospective basis, the balances for the previous year have been restated from what was originally published. For information on the impacts related to the first-time application of IFRS 17, for associated insurance companies, please refer to the following paragraph "Adoption of the accounting standards IFRS 17 "Insurance Contracts" and IFRS 9 "Financial Instruments" in the companies AXA MPS Assicurazioni Vita and AXA MPS Assicurazioni Danni.

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 financial year or prior financial 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 to the financial statements, whereas expenses are indicated in brackets.

The statement of comprehensive income, beginning with profit (loss) for the year, shows the income items recognised as contra-entries of valuation reserves, net of the related tax effect, in compliance with international accounting standards. Consolidated other 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 reclassified to profit or loss for the year when specific conditions are met.

The statement of changes in equity shows the breakdown and changes in shareholders' equity accounts during the financial 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 net profit (loss) 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 financial 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 and the Notes to the financial statements are denominated in thousands of Euro.

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

Going concern

These Financial Statements were prepared under the going concern assumption.

After assessment of the evolution of the equity and liquidity positions, with regard to the indications provided in Document no. 2 of 6 February 2009 and Document no. 4 of 3 March 2010, issued jointly by the Bank of Italy, Consob and ISVAP, and subsequent amendments, the Directors can reasonably expect that the Group will continue operating as a going concern in the foreseeable future and therefore consider it appropriate to use the going concern assumption in the preparation of these financial statements.



Section 3 – Scope and methods of consolidation

1. Equity investments in wholly-owned subsidiaries

The equity investments in wholly-owned subsidiaries are listed in the table below. For information on equity investments in companies jointly controlled or subject to significant influence by the Group, please refer to the contents of Part B - Information on the consolidated balance sheet - Section 7 - Equity investments, in these Notes to the Financial Statements.

	Name	Headquarters	Registered Office	Type of relationship (*)	Ownership		Available votes % (**)
					Held by	Shareholding %	
A	Companies						
A.0	BANCA MONTE DEI PASCHI DI SIENA S.p.a.	Siena	Siena				
	A.1 Companies consolidated on a line-by-line basis						
A.1	MONTE PASCHI FIDUCIARIA S.p.a.	Siena	Siena	1	A.0	100,00	
A.2	WISE DIALOG BANK S.p.a. - WIDIBA	Milan	Milan	1	A.0	100,00	
A.3	MPS TENIMENTI POGGIO BONELLI E CHIGI SARACINI SOCIETA' AGRICOLA S.p.a.	Castelnuovo Berardenga (SI)	Castelnuovo Berardenga (SI)	1	A.0	100,00	
A.4	G.IMM ASTOR S.r.l.	Lecce	Lecce	1	A.0	52,00	
A.5	AIACE REOCO S.r.l. in liquidazione	Siena	Siena	1	A.0	100,00	
A.6	MAGAZZINI GENERALI FIDUCIARI DI MANTOVA S.p.a.	Mantua	Mantua	1	A.0	100,00	
A.7	MONTE PASCHI BANQUE S.A.	Paris	Paris	1	A.0	100,00	
7.1	MONTE PASCHI CONSEIL FRANCE SOCIETE PAR ACTIONS SEMPLIFIEE	Paris	Paris		A.7	100,00	
7.2	IMMOBILIERE VICTOR HUGO S.C.I.	Paris	Paris		A.7	100,00	
A.8	MPS COVERED BOND S.r.l.	Conegliano	Conegliano	1	A.0	90,00	
A.9	MPS COVERED BOND 2 S.r.l.	Conegliano	Conegliano	1	A.0	90,00	
A.10	CIRENE FINANCE S.r.l.	Conegliano	Conegliano	1	A.0	60,00	
A.11	SIENA MORTGAGES 07-5 S.p.a.	Conegliano	Conegliano	2	A.0	7,00	
A.12	SIENA MORTGAGES 09-6 S.r.l. in liquidazione	Conegliano	Conegliano	2	A.0	7,00	
A.13	SIENA MORTGAGES 10-7 S.r.l. in liquidazione	Conegliano	Conegliano	2	A.0	7,00	
A.14	SIENA LEASE 2016 2 S.r.l. in liquidazione	Conegliano	Conegliano	2	A.0	100,00	
A.15	SIENA PMI 2016 S.r.l.	Conegliano	Conegliano	2	A.0	10,00	

(*) Type of relationship:

1 = majority of voting rights at ordinary shareholders' meetings

2 = other forms of control

() Votes available in the ordinary shareholders' meeting, distinguishing between actual and potential**



2. Significant assessments and assumptions for determining the scope of consolidation

Scope of consolidation

Subsidiaries

The consolidated financial statements include the balance sheet and income statement results of the Parent Company and its direct and indirect subsidiaries. In particular, the scope of consolidation includes all subsidiaries, irrespective of their legal status, of business activity pursued in sectors other than the Parent Company's core business, of their being going concerns or wound-up companies, or of whether the equity investment consists of a merchant banking transaction. Similarly, structured entities are also included when the requirement of actual control recurs, even if there is no stake in the entity.

Companies in which Banca MPS is exposed to variable returns, or holds rights to such returns, arising from its relationship with them and at the same time has the ability to affect returns by exercising its power over these entities, are considered subsidiaries.

The accounting standard IFRS 10 establishes a concept of control based on the simultaneous presence of three elements: (i) the power to direct the relevant activities, i.e. the activities carried out by the investee that are able to influence its returns; (ii) the exposure to the variability of the returns deriving from the activity of the investee, which may vary upwards or downwards and (iii) the exercise of power to influence the returns.

Thus, the afore-mentioned standard establishes that, to exercise control, the investor must have the ability to direct the entity's relevant activities, as the result of a legal right or a mere de facto situation, and also be exposed to the variability of results deriving from this power.

The Group must therefore consolidate all types of entities if all three control requirements are met. Generally, when an entity is managed through voting rights, control derives from the holding of more than half of those rights. In other cases, the identification of the scope of consolidation requires considering all factors and circumstances that give the investor the practical ability to unilaterally conduct the relevant activities of the entity (de facto control). To this end, it is necessary to consider a set of factors, such as, merely by way of example:

- the purpose and scope of the entity;
- the identification of the relevant activities and how they are managed;
- any right held through contractual agreements that grant the power to govern the relevant activities, such as the power to determine the financial and management policies of the entity, the power to exercise the majority of voting rights in the decision-making body, or the power to appoint or remove the majority of the decision-making body;
- any potential voting rights that can be exercised and deemed as substantial;
- involvement in the entity acting in the capacity of agent or principal;
- the nature and dispersion of any rights held by other investors.

Equity investments and equity securities

Equity investments and equity securities are considered subject to control if the Group directly or indirectly holds the absolute majority of voting rights in the ordinary shareholders' meeting and such rights are substantive, and the relative majority of voting rights if the other voting rights are held by widely-dispersed shareholders. Control may also exist in situations in which the Group 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 Group 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 articles of association 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).



Structured entities - investment funds

The Group takes the following positions with respect to funds:

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

A controlling relationship is established if the Group meets simultaneously the following conditions:

- has the power to direct the relevant activities, if:
 - it acts as fund manager and there are no substantial rights of dismissal by other investors; or
 - has a substantive right to dismiss the fund manager (outside the Group) without just cause or for reasons attributable to the performance of the funds; or
 - the governance of the fund is such as to allow the Group to substantially govern the relevant activities;
- has a significant exposure to the variable returns of the fund, through the direct holding of units deemed significant, in addition to any other form of exposure related to the economic results of the fund;
- it is in a position to affect these returns through the exercise of power, if:
 - it is the fund manager;
 - it has a substantial right to dismiss the fund manager (external to the Group);
 - has a right to participate in the fund's committees such as to give to the Group the legal and/or practical authority to control the activities carried out by the manager.
 - there are contractual relationships that bind the fund to the Group for the subscription or placement of units.

Structured entities - securitisation special purpose vehicles

In checking for the fulfilment of requirements of control over securitisation special purpose 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, 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 Group companies 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.

Equity investments in companies subject to joint control and under significant influence

Entities are considered to be jointly controlled companies when, based on contractual agreements, control is shared between the Parent Company, directly or indirectly, and one or more other parties external to the Group, or when decisions regarding the relevant activities require the unanimous consent of all parties that share control.

Companies are considered associates, that is, subject to significant influence, when the Parent Company, directly or indirectly, holds at least 20% of voting rights (including "potential" voting rights) or in which - though the voting rights held may be lower - the Parent Company has the power to participate in determining financial and operating policies as a result of specific legal ties, such as adhering to shareholder agreements.

Methods of consolidation

With reference to the consolidation methods, subsidiaries are consolidated on a line-by-line basis, interests in jointly controlled companies and investments in companies subject to the Group's "significant influence" are consolidated with the synthetic equity method.

Line-by-line consolidation method

Line-by-line consolidation consists in the line-by-line acquisition of the balance-sheet and income statement aggregates of the subsidiaries. After the assignment to third parties, under a separate account, of their shares of equity and profit/loss, the value of the equity investment is eliminated against the recognition of the residual value of the subsidiary's equity.

Intragroup assets, liabilities, income and expenses are eliminated.

Acquisitions of companies are accounted for based on the "acquisition method" set forth in IFRS 3, based on which identifiable assets acquired and identifiable liabilities assumed (including contingent), must be recognised at their respective fair values at the acquisition date. In addition, for each business combination, any non-controlling interests in the acquired company may be recognised at fair value or in proportion with the share of non-controlling



interests in identifiable net assets of the company acquired. Any excess of the consideration transferred (represented by the fair value of the assets transferred, liabilities assumed and equity instruments issued) and any recognition at fair value of the non-controlling interests with respect to the fair value of assets and liabilities acquired is recognised as goodwill; if the price is lower, the difference is allocated to the income statement.

The “acquisition method” is applied starting from the acquisition date, as described in the paragraph “Business combinations” under section “A.2 – Part relating to the main items of the financial statements” below, to which reference should be made, or beginning when control over the acquired company is effectively obtained. Therefore, the income and expenses of a subsidiary purchased during the reference financial year are included in the consolidated financial statements as of the date of purchase.

On the other hand, the income and expenses of a subsidiary sold are included in the consolidated financial statements up to the date of disposal, i.e. when the Parent ceases to control the subsidiary. At the date when control is lost, the controlling entity:

- derecognises the assets (including any goodwill) and liabilities of (and non-controlling interests in) the former subsidiary at their book values;
- recognises the fair value of the consideration received and of any investment retained in the former subsidiary;
- reclassifies to consolidated income statement any amounts previously recognised in the subsidiary’s statement of other comprehensive income as if the assets or liabilities had been transferred;
- recognises in income statement item “280. Gains (losses) on disposals of investments” the difference between the consideration for the sale and the book value of the investee’s net assets.

If there is a partial sale of the subsidiary that does not entail loss of control, the difference between the consideration for the sale and the relative book value is recognised as an offsetting entry in equity.

In order to prepare these Consolidated Financial Statements, all wholly-owned subsidiaries prepared a balance sheet and income statement that was compliant with the Group’s accounting standards.

Equity investments held for sale were recognised in accordance with the reference IFRS 5 standard, which governs the treatment of non-current assets held for sale. In this case, assets and liabilities held for sale are reclassified under balance sheet item “120. Non-current assets held for sale and disposal groups” and “70. Liabilities associated with disposal groups”. If the ongoing disposal of the equity investment can be configured as a discontinued operation pursuant to IFRS 5, the related income and charges are shown in the income statement, net of the tax effect, under item “320. Profit (Loss) from assets held for sale and discontinued operations after taxes”. Otherwise, the contribution of the investee is shown in the income statement on a line-by-line basis. For further details, please refer to paragraph “8 - Non-current assets and groups of assets held for sale” contained in the following section “A.2 – Part relating to the main items of the financial statements”. If the fair value of the assets and liabilities held for sale, net of sales costs, are less than the carrying amount, an impairment is recognised in the income statement.

Equity consolidation method

Equity investments in jointly controlled companies and investments in companies subject to the Group’s “significant influence” (associates) are consolidated with the synthetic equity method.

The equity method provides for the initial recognition of the investment at cost and its subsequent value adjustment on the basis of the share pertaining to shareholders’ equity. The share of the investee’s results for the year is recognised under item 250 “Gains (losses) on investments” in the consolidated Income Statement. Any change in the comprehensive income relating to these investee companies is presented, for the portion attributable to the Group, as part of the consolidated comprehensive income under shareholders’ equity item “120. Valuation reserves”.

In determining the ownership percentages, any potential voting rights are not considered.

If an investor’s share of losses in an associate equals or exceeds the interest’s carrying amount, the investor discontinues recognising its share of further losses unless the investor has incurred specific legal obligations or made payments in favour of the associate.

Profits resulting from transactions between the Group and its associates/jointly controlled entities are eliminated to the extent of the Group’s equity investment in the associate. Losses resulting from transactions between the Group and its associates are eliminated as well, unless the transaction provides evidence of an impairment of the asset transferred.



After applying the equity method, the equity investment is subject to an impairment test if there is objective evidence of a loss in value that could affect the investee's cash flows and therefore the recoverability of the investment's carrying amount. For further details, please refer to the paragraph "Method of determining impairment losses on equity investments" included in the next section "Use of estimates and assumptions in the preparation of financial statements".

If evidence of impairment indicates that there may have been a loss in value of an equity investment, then the recoverable value of the equity investment (which is the higher of the fair value, less costs to sell, and the value in use) should be estimated. The latter is determined by discounting the future cash flows that the equity investment may generate, including the final disposal value of the investment. Should the recoverable value be less than its book value, the difference is recognised immediately in the income statement, in the item indicated above.

The Group stops using the equity method on the date on which it stops exercising significant influence or joint control over the investee; in that case, as of that date the equity investment is reclassified to "Financial assets measured at fair value through other comprehensive income" or "Financial assets measured at fair value through profit or loss", on the condition that the associate or jointly controlled company does not become a subsidiary.

For the consolidation of jointly controlled companies and associates, the financial statements (annual or interim) that have been most recently approved by said companies are used. In rare cases, the companies do not apply IAS/IFRS standards, thus, for these companies, it has been ascertained that applying these standards would not result in significant impacts on the Group's consolidated financial statements.

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The changes in the consolidation area compared to the situation as at 31 December 2022 are attributable to the exit of:

- MPS Leasing & Factoring, Banca per i Servizi Finanziari alle Imprese S.p.A., following its merger by incorporation into the Parent Company with legal effects from 24 April 2023;
- MPS Capital Services Banca per le Imprese S.p.A., following its merger by incorporation into the Parent Company with legal effects from 29 May 2023;

with backdating, for both, of the accounting and tax effects from 1 January 2023.

3. Equity investments in wholly-owned subsidiaries with significant non-controlling interests

This section is not completed because as of 31 December 2023, in line with the previous financial year, there are no third-party interests in subsidiaries considered significant for the Group, either individually or as a whole, as also shown in the table in "Section 16 – Non-controlling interests" contained in Part B of the liabilities in these Notes to the financial statements.

4. Significant restrictions

Listed below are the significant restrictions on the Group's ability to access or use assets and to extinguish liabilities:

Regulatory restrictions

The Parent Company and its subsidiaries MPS Banque and Widiba, with assets and liabilities, before the derecognition of intercompany transactions, amounting to EUR 127,733.9 mln as at 31 December 2023 (EUR 145,609.1 mln as at 31 December 2022), respectively, are subject to prudential regulations set forth in Directive 2013/36/EU (CRD IV) and Regulation (EU) no. 575/2013 (Capital Requirements Regulation or CRR), designed to maintain adequate capitalisation in relation to risks assumed. Thus, as a general rule, the capacity of banks to distribute capital or dividends is restricted in compliance with these regulations in terms of capital requirements.

More in particular, at the end of the "Supervisory Review and Evaluation Process (SREP) carried out by the ECB, the Parent Company is required to

- maintain, starting from 1 January 2023, on a consolidated basis, a Total SREP Capital Requirement (TSCR) level of 10.75% which includes 8% as a minimum requirement for Own Funds pursuant to art. 92 of the CRR and 2.75% as a Pillar II capital requirement (to be met by at least 56.25% with CET1 and at least 75% with Tier 1);
- obtain prior authorization from the ECB for the distribution of dividends.

This last restriction also forms part of the commitments made by the Italian Government to the European Commission, which also coincide with various aspects of the Group Business Plan, including:



- cost reduction measures: annual constraints in terms of number of branches, employees, cost/income and total operating costs;
- restrictions on advertising and sales policy: the Parent Company cannot use State aid or advantages deriving from it for advertising purposes aimed at promoting its products or its market position. Furthermore, it cannot adopt a particularly aggressive sales policy which it would not have adopted if it had not had access to State aid;
- assets disposal: continuing the process for MP Banque to dispose of its assets on the basis of a defined timeline and divest itself of a list of non-strategic corporate holdings within the scope of the plan, divestment of real estate;
- prohibition from making acquisitions: in particular, the Parent Company cannot acquire any equity investment or asset, except in selected cases;
- employee remuneration: the remuneration of any employee may not exceed 10 times the average remuneration of the employees of the Parent Company.

Legal restrictions

The Parent Company is required, in compliance with statutory provisions, to deduct 10% of annual net profit to form the legal reserve, until it has reached 20% of the share capital. The reserve must be replenished if it is reduced for whatever reason. The Parent Company is also required to form and increase a statutory reserve in an amount not less than 15% and at least 25% from the moment the legal reserve reaches 20% of the share capital.

The Italian subsidiaries other than securitisation special purpose vehicles are required, in compliance with statutory provisions, to deduct 5% of annual net profit to form the legal reserve, until it has reached 20% of the share capital, and an additional 5% to be allocated to a statutory reserve.

Contractual restrictions

Pledged assets

The Group holds assets not available to it in that they are used to guarantee financing transactions (e.g., repurchase or securitisation transactions).

The disclosure on assets pledged as collateral for liabilities and commitments is provided in the “Other information” section of Part B of these Notes to the consolidated financial statements, to which reference should be made.

Group assets related to securitisations

As at 31 December 2023, asset item 40 b) “Financial assets measured at amortised cost: loans to customers” does not include amounts of loans not derecognised from the financial statements as a liability to issuing special purpose vehicles (against cash received with these transfers) as the last “own” securitisation without derecognition (Siena Mortgages 10-7) was closed early in 2023 with the consequent repurchase of the residual portfolio. As at 31 December 2022, the Group recognised EUR 873.0 mln in loans and EUR 52.7 mln in related liabilities. For details, please refer to tables “D. Transfers” of the Notes to the consolidated financial statements – Part E - Information on risks and hedging policies.

Other restrictions

The Group’s banks are required to hold a compulsory reserve at national Central Banks. The compulsory reserve as at 31 December 2023, included in asset item 40 “Financial assets measured at amortised cost” sub-item “a) Loans to banks”, held at Bank of Italy, amounted to EUR 501.8 mln (EUR 524.1 mln as at 31 December 2022).

5. Other information

The financial statements processed for line-by-line consolidation of the subsidiaries include the financial statements as at 31 December 2023, as approved by the Boards of Directors of the respective companies.



Section 4 – Events after the Reporting Date

The significant events that occurred in the period between the reporting date (31 December 2023) and the date of approval of the consolidated financial statements by the Board of Directors (29 February 2023), entirely attributable to non-adjusting events, pursuant to IAS 10, i.e. events that do not entail any adjustments to the financial statements, as they are the expression of situations arising after the reporting date.

Liquidation of investee companies

On 9 January 2024, the company Siena Lease 2016-2 Srl in liquidation was cancelled from the competent Companies' Register, to complete the liquidation procedure. This transaction had no effect on the Group's financial position and Income Statement as at 31 December 2023.

Section 5 – Other Matters

Interest rate benchmark reform

The so-called "IBOR reform" follows the recommendations of the Financial Stability Board (FSB) following the request of the G20 to carry out a radical revision of the main interest rate benchmarks. The request is a direct consequence of the loss of reliability of some existing benchmark rates following their alleged manipulation, corroborated by the scarcity of liquidity in the interbank markets in the period following the economic crisis. The reform process is based at EU level on Regulation (EU) 2016/1011 of 8 June 2016 (so-called "Benchmarks Regulation" or "BMR"), which entered into force on 30 June 2016, applicable from 1 January 2018 and amended in 2021. The Benchmarks Regulation has introduced in the EU a new regulatory framework on benchmark interest rates, i.e. indexes in reference to which the amount to be paid for a financial instrument or a financial contract is determined.

To respond to the requirements of the BMR Regulation, the Monte dei Paschi Group launched an assessment project in 2020, from which it emerged that the impact of the reform was of low significance in the following areas: products, contracts, models and information systems.

With reference to OTC derivatives and in line with practices at most financial market operators, at the beginning of this year, the Parent Company and the former subsidiary MPS Capital Services Banca per le Imprese S.p.A. have approved the adoption of the ISDA 2020 *IBOR Fallback Protocol* and the ISDA 2021 *EONIA Collateral Agreement Fallbacks Protocol*. These protocols were created to allow the parties to massively modify the contractual terms of existing transactions, incorporating the alternative rates (fallbacks).

During the first half of 2023, the project activities relating to the discontinuation of the publication of the USD Libor were completed, initiating intense negotiations with the counterparties in order to facilitate the definitive transition to the replacement index "Term SOFR" recorded by the CME Group, and adopted in line with the recommendations formulated by the ARRC (The Alternative Reference Rates Committee). As at 31 December 2023, there aren't financial instruments that must switch to an alternative reference rate, except for a non-material cluster of customer accounts (IFRS 7, 24)).

With regard to the issue of clauses relating to the substitute rate in contracts, Italian Legislative Decree no. 207, published in the Official Gazette on 27 December 2023, with entry into force on 11 January 2024, introduced art. 118-bis in the TUB, extending the possibility of unilaterally changing rates to forward contracts (regulated by Title VI of the TUB), as is already the case for open-ended contracts, in the event of change or termination. In this way, the Group will be able to apply massively to all banking products the changes necessary to update the substitute rate, without having to resort to individual negotiations. The necessary activities are currently underway to update the contracts of banking products aimed at introducing clauses which, in the event of a substantial change or termination of the reference index applied to the contract, make it possible to identify changes to the reference index or the replacement index, also for reference to the internal plan adopted by the Parent Company in case of change or termination of reference rates pursuant to EU Regulation 2016/1011.

The ESEF (European Single Electronic Format) for the preparation of annual financial reports

The Delegated Regulation (EU) no. 2019/815 ("ESEF Regulation"), which amends Transparency Directive no. 2004/109/EC, requires that issuers whose securities are listed on regulated markets in the European Union must prepare financial reports according to the ESEF single electronic reporting format approved by ESMA, which represent a combination of XHTML (for presentation of financial reports in a human readable format) and XBRL (eXtensible Business Reporting Language) with "machine readable" mark up, with the purpose to simplified the accessibility, the analysis and comparability of consolidated financial statements prepared in accordance with IFRS.



The use of the XBRL markup language involves the mapping of information contained in the financial statements according to “inline XBRL” standard of the basic taxonomy issued by Esma.

Specifically, starting from 1 January 2021, following the extension in the “Milleproroghe” Decree, and therefore starting from the consolidated financial statements as at 31 December 2021, the obligation to mark the following information was introduced: basic data, consolidated financial statements (consolidated balance sheet, consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated cash flow statement). Starting from the consolidated financial statements as at 31 December 2022, the requirement to prepare them according to the new ESEF format was also extended to the information contained in the Notes to the financial statements.

From an operational point of view, the marking process was carried out in two ways:

- the detailed marking, relating to the numerical items of the consolidated financial statements, labels each numerical value contained in the statements themselves, identifying the appropriate tag in the basic taxonomy;
- the block marking, relating to the content of the Notes to the financial statements, requires that for each applicable element of the taxonomy, the conceptually corresponding portion of the Notes to the financial statements, consisting of text and tables (so-called “bloc tag”), is identified.

The basic taxonomy used for xbrl format is update annually, to take into account the issuance of new standards or the amendments to existing standard and the analyses of information published by issuers. In this regards, it should be noted that the EU Regulation no. 2553/2022, published in the Official Journal of European Union on 30 December 2022 and entered into force starting from 1 January 2023, amended the Regulatory Technical Standards (RTS) with regard to 2022 Taxonomy’s update (ESEF Taxonomy 2022). Finally it should be noted that in May 2023 Esma announced its decision to postpone until 2024 the annual amendment to the RTS, given the limited changes made by 2023 IFRS taxonomy update.

This Annual financial report was prepared in XHTML in accordance with the provisions of the ESEF Regulation, was proved by the Bank’s Board of Directors on 29 February 2023, and will be made public in accordance with the law.

ESMA Priorities 2023

In October 2023, ESMA published the *Public Statement European common enforcement priorities for 2023 annual financial reports* in which it highlights what are considered to be the thematic areas of particular relevance for the 2023 financial reporting.

The Authority, in its general recommendations, draws attention to the disclosure of recently or soon to be implemented accounting standards. In particular, for the year 2023, particular attention is paid to the disclosure relating to the introduction i) of the accounting standard IFRS 17 “Insurance Contracts”, for which reference is made to the following paragraph “IFRS 17 Insurance contracts Adoption of accounting standards” “IFRS 17 Insurance Contracts” and “IFRS 9 Financial Instruments” in the companies AXA MPS Assicurazioni Vita and AXA MPS Assicurazioni Danni”, and ii) amendment to IAS 12 “International Tax Reform Pillar Two Model Rules”, for which reference is made to the paragraph “Pillar 2 - Global Minimum Tax” included in the section “The Group’s tax position” in the Consolidated Report on Operations.

As regards the enforcement priorities for the 2023 Financial Statements, these mainly concern issues related to i) the macroeconomic context and ii) climate/environmental factors.

Among the issues related to the macroeconomic context, particular emphasis is placed on the need to provide extensive disclosure on the impacts that the current macroeconomic context, characterised by rising interest rates and high inflation, could have: i) on financial risks, in particular on interest rate risk and liquidity risk, to which the entities are exposed and on hedge accounting requirements; ii) on the fair value of assets, financial and otherwise, as these values may not correctly reflect current market conditions.

For an analysis of the strategic management of interest rate risk in the current macroeconomic context and the relative sensitivity analyses, please refer to what is set forth in Part E - Information on risks and hedging policies of the Notes to the financial statements in the section “1.2.2 Interest rate and price risk” in the paragraphs “Qualitative Information - A.1 Interest rate risk” and “Quantitative Information – 2.1 Interest rate risk”, respectively.

For aspects concerning liquidity risk, please refer to the Part of E - Information on risks and hedging policies of the Notes to the financial statements in section “4 Liquidity risk” respectively i) in the paragraph “Qualitative



information – Liquidity risk: general aspects, operational processes and measurement methods” for disclosure on the Group’s liquidity risk management strategies and concentration risk; ii) in the paragraph “Quantitative information - Breakdown of financial assets and liabilities by residual contractual duration” for a quantitative analysis of the exposure to liquidity risk. With regard to information on assets pledged as collateral for own liabilities and commitments, please refer to the related table d Part B - Information on the consolidated balance sheet – section on Quantitative Information as well as Part E - Information on risks and hedging policies in the Notes to the financial statements, section 2 Risks of prudential consolidation in paragraph D Covered bond transactions

Finally, with regard to the refinancing risk to which its counterparties may be exposed, in particular for counterparties operating in commercial real estate sectors, please refer to “Part E - Information on risks and hedging policies” of the Notes to the financial statements, section 2 – Risks of prudential consolidation, 1.1 Credit risk, paragraph 2.3 Methods to measure expected losses” in the paragraph “Management overlays”.

Please refer to section A.4 – Information on fair value of Part A Accounting policies for information on the determination of the fair value of real estate assets and financial assets.

With regard to information relating to climate/environmental factors, ESMA reiterated, in addition to the need to provide consistent disclosure between what is reported in the Financial statements and in the Non-financial statement, the importance of an adequate assessment of the related risks to climate change and an appropriate description of them in the financial statements if these risks are material. For details, please refer to Part E - Information on risks and hedging policies, paragraph “ESG Risks”.

In line with ESMA requirements, the Group has also paid particular attention to the assessment of the possible impacts that climatic/environmental factors may have had on its estimates and assumptions, with particular regard to:

- 1) the quantification of impairment losses on receivables, for which reference is made to Part A - Accounting Policies, paragraph “Incorporation of climate and environmental risks in the determination of expected losses” and to Part E - Information on risks and hedging policies, section 2 – Risks of prudential consolidation, 1.1 Credit risk, paragraph 2.3 Methods for measuring expected losses,
- 2) the quantification of the fair value of investment property and operating properties, for which reference is made to Part A - Accounting policies, paragraph “Determination of the fair value of properties”;
- 3) the assessment of the fairness of the value of equity investments and other non-financial assets Part A - Accounting policies, paragraph “Methods for calculating impairment on equity investments”

Finally, ESMA requires disclosure regarding the offer of green financing products and the purchase of certifications for renewable energy. For an analysis of these aspects, please refer to Part E – paragraph “ESG Risks”.



An illustration of the new accounting standards, or the changes to existing standards approved by the IASB is provided below, as well as the new interpretations or changes to existing interpretations published by IFRIC, with separate reporting on those applicable in 2023 from those that may be adopted in subsequent financial years.

List of key IAS/IFRS international accounting standards and related SIC/IFRIC interpretations endorsed for mandatory application as of the 2023 Financial Statements

The accounting standard **IFRS 17 “Insurance Contracts”**, published by the IASB in May 2017 and subject to subsequent amendments published on 25 June 2020 and on 9 December 2021, was endorsed with EU Regulation no. 2036/2021 of 19 November 2021 – and more recently amended with Regulation no. 1491/2022 of 8 September 2022, which introduced some changes of limited scope for the preparation of comparative information for the first-time application of IFRS 17 and IFRS 9 – entered into force on 1 January 2023.

Regulation no. 2022/1491 of 8 September 2022, as noted above, endorsed the amendment to **IFRS 17 “Insurance Contracts: Initial Application of IFRS 17 and IFRS 9 - Comparative Information”**, published by the IASB on 9 December 2021. This amendment changes the rules for the transition to IFRS 17 for entities that at the same time apply the transition to IFRS 9, taking into account the different requirements envisaged by the aforementioned accounting standards for the restatement of comparative balances; in fact, IFRS 17 requires the restatement of comparative information, which is permitted but not required by IFRS 9. On the basis of the amendment in question, the entity is allowed to present comparative information on financial assets as if the IFRS 9 classification and measurement requirements had been applied; this option is applicable to individual financial instruments and does not require the adoption of impairment criteria established by IFRS 9. The amendments are applicable from 1 January 2023.

The Group does not carry out insurance activities or provide insurance services/product under the scope of IFRS 17. The introduction of the new standard assumes exclusively indirect significance since the Group holds equity investments in associates in the capital of the insurance companies “AXA MPS Assicurazioni Danni S.p.A.” and “AXA MPS Assicurazioni Vita S.p.A.”, consolidated with the synthetic equity method. Reference is made to the paragraph “Adoption of the accounting standards IFRS 17 Insurance Contracts and IFRS 9 Financial Instruments in the companies AXA MPS Assicurazioni Vita and AXA MPS Assicurazioni Danni” of this section of the Notes to the consolidated financial statements for an explanation of the impacts.

Regulation no. 2022/357 of 2 March 2022 endorsed the amendment to IAS 1 “**Disclosure of Accounting Policies (Amendments to IAS 1 “Presentation of Financial Statements” and IFRS Practice Statement 2 “Making Materiality Judgements”)**” and the amendment to IAS 8 “**Definition of Accounting Estimates (Amendments to IAS 8)**”, both published by the IASB on 12 February 2021. These amendments clarify the differences between accounting standards and accounting estimates in order to ensure the consistent application of accounting standards and the comparability of financial statements. With reference to IAS 1, the IASB introduced amendments with the aim of developing guidelines and examples in the application of assessments of relevance and materiality to disclosures on accounting standards. In particular, information on accounting standards is material if, considered together with other information included in the entity’s financial statements, it is reasonable to expect that it will affect the decisions of the users of the financial statements. With regard to the amendments to IAS 8, the IASB introduced the definition of accounting estimate. Accounting estimates are to be understood as “monetary amounts in the financial statements subject to valuation uncertainty”. The amendments to both standards are effective for financial years starting on or after 1 January 2023, with early application permitted. No significant impacts for the Group were derived from the aforementioned amendments, although it may constitute a useful reference for analyses and for improving financial statement disclosure.

The Regulation (EU) 2022/1392 of 11 August 2022 endorsed the amendment to IAS 12 “**Deferred Tax related to Assets and Liabilities arising from a Single Transaction” (Amendments to IAS 12)**, published by the IASB on 7 May 2021, which specifies how companies should account for deferred tax on transactions such as leases and decommissioning obligations. With the amendments in question, it was specified that the exemption from the recognition of a deferred tax liability or asset does not apply in the event of the initial recognition of an asset or a liability in a transaction that gives rise to deductible temporary differences and equal taxable income, even if at the time of the transaction it does not affect either the accounting profit or the taxable income/tax loss. The amendments apply as of 1 January 2023, but early adoption is permitted. The amendment had no impact for the Group.

Regulation (EU) 2023/2468 of 8 November 2023 endorsed the amendment to IAS 12 “**Income taxes: International Tax Reform – Pillar Two Model Rules” (Amendments to IAS 12)** published by the IASB on 23 May 2023. This amendment is the result of the publication by the OECD, in December 2021, of a number of rules agreed upon at international level (by more than 135 countries representing over 90% of global GDP) aimed



at resolving the tax problems deriving from digitalisation of the economy, through which a two-pillar model (so-called Pillar One and Two) was introduced. In detail, the Pillar Two rules aim to limit tax competition by introducing a minimum global rate of 15% in each jurisdiction in which large multinationals operate. As a general rule, the Parent Company will be required to pay any top-up tax for subsidiaries operating in low-tax jurisdictions and for which the current tax is below the 15% minimum threshold. The additional tax will be paid in the jurisdiction of the Parent Company. Given the concerns that had arisen on the accounting of deferred taxes related to the top-up tax, the amendment introduced: (i) a temporary exception to the accounting of deferred taxes related to the application of the new “Pillar Two” provisions and (ii) disclosure requirements before and after the entry into force of the regulations. The temporary exception applies immediately and retroactively in accordance with IAS 8 “**Accounting policies, changes in accounting estimates and errors**”. Additional information is required for financial years beginning on or after 1 January 2023. The Group has applied the exception to the recognition and disclosure of deferred tax assets and liabilities relating to Pillar 2 income taxes.

For more information on the effect of Pillar 2 legislation on the Group and the main jurisdiction in which Pillar 2 exposures may exist, please refer to the paragraph “Pillar 2 – Global minimum tax” included in the section “Group tax position” within the Consolidated report on operations.

List of endorsed IAS/IFRS international accounting standards and related SIC/IFRIC endorsed interpretations whose application is mandatory after 31 December 2023

The standards or amendments whose application is effective after 31 December 2023 and for which the Group, where envisaged, did not make use of early application, is provided below.

Regulation (EU) 2023/2579 of 20 November 2023 endorsed the amendment to IFRS 16 “**Leases: lease liability in sale and leaseback**” (amendment to IFRS 16) issued by the IASB on 22 September 2022. The amendment clarifies how a sale and leaseback transaction is accounted for after the transaction date. The above amendments are in addition to the sale and leaseback requirements of IFRS 16, thus supporting the consistent application of the accounting standard. The amendments will be effective for financial years starting on or after 1 January 2024, with early application permitted.

Regulation (EU) 2023/2822 of 19 December 2023 endorsed the amendments to IAS 1 presented by the IASB on 23 January 2020 “**Classification of Liabilities as Current or Non-Current Date**” and on 31 October 2022 “**Non-current Liabilities with Covenants**”, with the aim of clarifying the way in which a company must determine, in the statement of financial position, the debt and other liabilities with uncertain settlement date. Based on these amendments, the debt or other liabilities must be classified as current (with actual or potential extinction date within one year) or non-current. The related application, initially scheduled for the financial year 2022, was first deferred to 1 January 2023, with the amendments approved by the IASB on 15 July 2020, and finally postponed to 1 January 2024, with the amendments issued on 31 October 2022. This last amendment requires that only the covenants that an entity must comply with at the reporting date or before that date are such as to affect the classification of a liability as current or non-current. It is also required to indicate in the Notes to the financial statements the information that allows users of the financial statements to understand the risk that non-current liabilities with covenants may become repayable within twelve months.

The aforementioned changes are not expected to have a significant impact on the Group’s financial position.

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

On 25 May 2023, the IASB published the amendment to IAS 7 “**Statement of Cash Flows**” and IFRS 7 “**Financial Instruments: disclosures: supplier finance arrangements**”. The amendments introduce new disclosure requirements relating to the financial agreements in place with suppliers. In particular, the following details are required:

- the terms and conditions of each reverse factoring arrangement;
- for each reverse factoring arrangement, at the start and end dates of the period:
 - the book value of financial liabilities recorded in the financial statements and the item in which these financial liabilities are presented in the statement of financial position;
 - the book value of financial liabilities for which suppliers have already received payment from the lenders;
 - the deferred payments period for reverse factoring liabilities;



- the deferred payments period for trade payables that are not part of a reverse factoring arrangement.

Lastly, the IASB published on 15 August 2023 the amendment to IAS 21 “***The effects of changes in foreign exchange rates: lack of exchangeability***”. The amendment clarifies when a currency is convertible into another currency, how to estimate the exchange rate if the currency is not convertible and the information to be provided in the Notes to the financial statements. The amendment will become effective on 1 January 2025, but early adoption is permitted. The amendments will be effective for financial years starting on or after 1 January 2024.

The aforementioned changes are not expected to have a significant impact on the Group’s financial position.

A.2 – Part relating to the main items of the financial statements

Accounting standards

The following is a description of the accounting standards that have been adopted with reference to the main asset and liability items for the preparation of the consolidated financial statements as at 31 December 2023 with reference to the stages of classification, recognition, measurement and derecognition of the various asset and liability items, as well as for the methods of recognising revenues and costs. These standards are aligned with those adopted for the preparation of the comparative financial statements as at 31 December 2022.

1 Financial assets measured at fair value through profit or 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 item in particular includes:

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

With reference to the latter, it is possible to offset current positive and negative values deriving from outstanding transactions with the same counterparty - including in the case of derivative contracts allocated to the trading portfolio and hedging derivative contracts, as required by Circular 262 - only if the legal right to offset the amounts recognised is currently in place and the entity intends to proceed with the net settlement of offsetting positions.

More detailed information is provided below on the three sub-items that comprise this category, represented by: “Financial assets held for trading”, “Financial assets measured at fair value”, and “Other financial assets mandatorily measured at fair value”.

Financial assets held for trading

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

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

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



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

Financial assets designated at fair value

A financial asset (debt securities and loans) can be designated at fair value irrevocably at the time of initial recognition, only when this designation makes it possible to eliminate or significantly reduce a measurement inconsistency ("accounting mismatch"). This category is not used by the Group at present.

Other financial assets mandatorily measured at fair value

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

- debt securities and loans, when: i) the relative contractual cash flows do not represent solely payments of principal and interest on the residual principal (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);
- UCITS units;
- equity securities held for purposes other than trading for which the option of classification at fair value through other comprehensive income is not exercised.

b) recognition criteria

Initial recognition of financial assets occurs at settlement date for debt securities, equities and units of UCITS, at disbursement date for loans, and at trade date for derivative contracts. Upon initial recognition, financial assets measured at fair value through profit or 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 or loss are recorded at fair value, with changes recognised as an offsetting entry in the income statement.

To determine the fair value of financial instruments listed on an active market, market prices recorded at the reporting date are used. In the absence of an active market, commonly adopted estimation methods and valuation models are used, which take into account all the risk factors related to the instruments and which are based on data recorded on the market such as: valuation of listed securities with similar characteristics, discounted cash flow calculations, option pricing models, values recognised 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 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 further information on the criteria for determining the fair value, please refer to Section "A.4 Information on Fair Value" of Part A of these Notes to the consolidated financial statements.

d) revenue recognition criteria

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

Realised gains and losses, the gains and losses from measurements for "Financial assets held for trading", including derivatives associated with financial assets/liabilities measured at fair value, are booked to the income statement under item "80 - Net trading income (expenses)". These income effects pertaining to "Financial assets measured at fair value" as well as "Other financial assets mandatorily measured at fair value" are booked to the income statement under item "110 - Net profit (loss) from other financial assets and liabilities measured at fair value through profit or loss", in the sub-items "a) financial assets and liabilities measured at fair value" and "b) other financial assets mandatorily measured at fair value", respectively.



e) derecognition criteria

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

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

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

f) reclassification criteria

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

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

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

a) classification criteria

This category includes financial assets represented by:

- debt securities, managed as part of a "Held to collect and sell" business model and whose contractual flows represent only payments of principal and interest on the residual capital (SPPI test passed);
- equity instruments (not qualifiable as control, association and joint control), held as part of a Business Model other than trading for which the option for recognition in the individual instrument was irrevocably exercised at the time of initial recognition of the individual instrument, the option for recognition in the statement of comprehensive income from changes in fair value after initial recognition (OCI election).

b) recognition criteria

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

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

c) measurement criteria

Financial assets represented by debt securities and loans, following initial recognition, continue to be measured at fair value, with recognition in the income statement of interest (based on the effective interest rate method), expected credit losses and any exchange rate changes. Fair value changes, net of expected credit losses, are booked to the appropriate equity reserve net of the associated tax effect (item "120 - Valuation reserves"). Upon cancellation of the financial asset, the accumulated profits or losses in the valuation reserve will be subject to recycling to the Income Statement (item "100. Gains (losses) on disposal or repurchase of: b) financial assets measured at fair value through other comprehensive income").



Financial assets represented by equity instruments, following initial recognition, continue to be measured at fair value, with changes booked to the appropriate equity reserve net of the associated tax effect (item “120 - Valuation reserves”). The amounts recognised in this reserve will never be transferred to the income statement, even in the event of a sale; in this case, a reclassification is made to another equity item (item “150 - Reserves”). Furthermore, no write-down to the income statement is envisaged for these assets as they are not subject to any impairment process. The only component of these equity securities that is recognised in the income statement is represented by the related dividends is represented by the related dividends received (item “70 - Dividends and similar income”).

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

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

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

d) revenue recognition criteria

As regards financial instruments represented by debt instruments:

- interest is recorded under item “10 - Interest income and similar revenues”;
- expected credit losses recognised in the financial year are accounted for in item “130 - “Net impairment (losses)/reversals for credit risk of: b) financial assets measured at fair value through comprehensive income” as a balancing entry to the specific equity valuation reserve (“120. Valuation reserves”); the same applies to recoveries of part or all of the write-downs made in previous financial years;
- at the moment of derecognition, valuations accumulated in the specific equity reserve are reversed to the income statement under item “100 - Gains (losses) on disposal/repurchase of: b) financial assets measured at fair value through other comprehensive income”.

As regards financial assets represented by equity instruments, for which the so-called “OCI election” was exercised, only dividends are booked to the income statement (item “70 - Dividends and similar income”).

e) derecognition criteria

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

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

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

f) reclassification criteria

According to the general rules established by IFRS 9 on reclassifying financial assets (with the exception of equity securities, for which reclassification is not permitted), reclassifications to other categories of financial assets are not



permitted unless the entity changes its Business Model for managing financial assets. In these cases, which are expected to be highly infrequent, financial assets may be reclassified from the category 'measured at fair value through other comprehensive income' to one of the other two categories envisaged by IFRS 9 (financial assets measured at amortised cost or financial assets measured at fair value through profit or 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 or loss category, the cumulative gain (loss) recorded previously in the valuation reserve is reclassified from shareholders' equity to profit (loss) for the year.

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

3 Financial assets measured at amortised cost

a) classification criteria

Included in this category are financial assets represented by loans and debt securities held according to a business model whose objective is achieved through the collection of contractually stipulated cash flows (business model "Held to collect") and whose contractual flows represent only principal and interest payments on the principal to be repaid (SPPI test passed).

The portfolio of financial assets measured at amortised cost includes:

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

b) recognition criteria

Financial assets are initially recognised on the date of settlement, with reference to debt securities, and on the date of disbursement, with reference to loans. In particular, as far as loans are concerned, the disbursement date normally coincides with the contract execution date. If this coincidence does not occur, at the time of the contract execution, a commitment to disburse funds is recorded, which closes on the date of disbursement of the loan. The initial recognition is based on the fair value of the financial instrument (which is normally equal to the amount disbursed or price of underwriting), inclusive of the costs/income directly related to the individual instruments and determinable as of the transaction date, even if such costs/income are settled at a later date. This does not include costs which have these characteristics but are subject to repayment by the debtor or which can be encompassed in ordinary internal administrative expenses.

Repurchase agreements with forward repurchase or resale obligation are recorded in the Financial Statements as funding or lending transactions. In particular, spot sales and forward repurchase transactions are recognised in the financial statements as payables for the spot amount received, while spot purchase and forward resale transactions are recognised as receivables for the spot amount paid.

c) measurement criteria and revenue recognition criteria

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

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

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



The effective interest rate is identified by calculating the rate that equals the present value of future flows of the asset, in terms of principal and interest, to the amount disbursed including the costs/income related to the asset. The estimate of cash flows must take into account all contractual clauses that may affect amounts and maturities, without considering the expected losses on the asset. This accounting method, using a financial logic, makes it possible to distribute the economic effect of all transaction costs, commissions, premiums or discounts considered an integral part of the effective interest rate over the expected residual life of the asset. The amortised cost method is not used for short-term receivables, for which the effect of applying a discounting approach is negligible, for loans without a defined maturity, and for revocation loans. For more details on amortised cost, please refer to the paragraph “amortised cost” included in the paragraph “Other significant accounting practices” below.

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”. If there is no reasonable expectation of recovery, the gross exposure is written-off: in this case, the gross exposure will be reduced by the amount deemed non-recoverable, as a balancing entry to the reversal of the provision to cover expected losses and impairment losses in the income statement, for the part not covered by the provision. For further details on the accounting treatment of “write-offs”, please refer to the following paragraph on “derecognition criteria”.

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 debtor’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: include performing financial assets which have suffered a significant impairment in credit risk compared to the initial recognition. Impairment is measured as the estimated expected loss with reference to a timespan equal to the 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 determined according to a collective process based on certain risk parameters represented by the probability of default (PD), the loss rate in the event of default (LGD, Loss Given Default) and the exposure value (EAD, Exposure At Default) deriving from internal models for the calculation of regulatory credit risk, appropriately adjusted in order to take into account the specific requirements envisaged by accounting regulations.

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

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

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

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



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

The financial asset's original value is restored in subsequent financial years when there is an improvement in the exposure's creditworthiness compared to that which had led to the previous write-down. The reversal is posted to the same item in the income statement ("130 - Net impairment (losses)/reversals for credit risk") and may not, in any case, exceed the amortised cost that the asset would have had without prior adjustments. For more detailed information on the impairment model, please refer to the subsequent paragraph "Use of estimates and assumptions when preparing financial statements - Methods for calculating impairment on IFRS 9 financial instruments".

For non-performing exposures, accrued interest is calculated based on amortised cost, i.e., using the value of the exposure - calculated with the effective interest rate - adjusted for expected losses. In case of management of non-performing exposures, or of transfer from stage 3 to stage 2 or stage 1, interest will once again be calculated based on the gross exposure value; the positive difference is recognised, as the recovery of previous impairment losses, as an offsetting entry to item "130. Net impairment (losses)/reversals for credit risk". The same accounting entry is made in the event that the interest collected is greater than the expected cash flows.

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

d) derecognition criteria

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

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. Conversely, if such control has been maintained, even partly, the assets should continue to be recognised to the extent of residual involvement, as measured by the exposure to the changes in value of the assets disposed and to the changes in their cash flows.

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

Finally, assets subject to substantial changes, as more fully described in the paragraph "Renegotiations", are derecognised.

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 debtor 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 debtors 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 financial 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 debtor 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 debtor will be unable



to repay the loan amount. In this case, the gross nominal value of the loan remains unchanged, but the gross book value is reduced by an amount equal to the amount to be written off, which may represent the full exposure or a portion of it. The write-off amount cannot be subjected to subsequent write-backs following an improvement in collection forecasts, rather only as the result of amounts effectively collected.

In the event of derecognition, the difference between the carrying amount 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) Gains/(losses) on disposal or repurchase of: financial assets measured at amortised cost”.

e) reclassification criteria

According to the general rules established by IFRS 9 on reclassifying financial assets, reclassifications to other categories of financial assets are not permitted unless the entity changes its Business Model for managing financial assets. In these cases, which are expected to be highly infrequent, financial assets may be reclassified from the category ‘measured at amortised cost’ to one of the other two categories envisaged by IFRS 9 (financial assets measured at fair value through other comprehensive income or financial assets measured at fair value through profit or 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 or loss” and, under equity, in the appropriate valuation reserve, in the case of the reclassification under “Financial assets measured at fair value through other comprehensive income”.

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

4 Hedging transactions

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

a) classification criteria – types of hedging

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

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

Only instruments that involve a counterparty outside the Group can be designated as hedging instruments. Given the choice exercised by the Group of making use of the possibility to continue to fully apply the rules of IAS 39 to hedging relationships, it is not possible to recognise capital securities under Financial assets measured at fair value through other comprehensive income (FVOCI) as hedged for price or exchange risk, as these instruments do not impact the income statement, even in case of sale (other than for the dividends recognised in the financial statement).

b) recognition criteria

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



A relationship qualifies as a hedge, and is represented in the accounts, if and only if all the following conditions are met:

- at the start of the hedge there is a formal designation and documentation of the hedging relationship, the company's objectives in managing the risk and the strategy in carrying out the hedge. This documentation includes the identification of the hedging instrument, the hedged item or transaction, the nature of the hedged risk and how the company assesses the effectiveness of the hedging instrument in offsetting the exposure to changes in the fair value of the hedged element or cash flows attributable to the hedged risk;
- the hedge is expected to be highly effective;
- the planned transaction subject to hedging, for cash flow hedges, is highly probable and presents an exposure to changes in cash flows that could affect the income statement;
- the effectiveness of the hedge can be reliably measured;
- the hedge is valued on the basis of a continuity criterion and is considered highly effective for all the reference financial years for which the hedge was designated.

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 these changes, taking into account the intent pursued by the company at the time the hedge is put in place. With reference to the hedged risk, the hedging is effective (within the 80% to 125% window) when the changes in fair value (or in the cash flows) of the hedging instrument offset the changes in the hedged item almost entirely.

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

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

c) measurement criteria and revenue recognition criteria

Hedging derivatives are measured at fair value. In particular:

Fair value hedging

In the case of specific fair value hedging, the change in the fair value of the hedged element (for changes generated by the underlying risk factor) adjusts the book value of the hedged element and is immediately recognised, regardless of the category to which the hedged asset or liability belongs, along with the change in the fair value of the hedging instrument, in income statement item "90 - Net profit (loss) from hedging". Any difference, i.e. partial ineffectiveness of the hedging derivatives, reflects their net P&L impact.

If the hedging relationship is suspended, the hedged instrument, if not derecognised from financial statements, is returned to the original valuation criterion of the class to which it belongs. Specifically for instruments measured at amortised cost, the cumulative revaluations/write-downs recorded as a result of changes in the fair value of the hedged risk are recognised in the income statement in interest income and expense over the residual life of the hedged item, based on the effective interest rate. Instead, if the suspension of the hedge is accompanied by the derecognition from financial statements of the hedged item (e.g., sale or early repayment), the fair value portion not yet amortised is immediately recognised in the income statement under the item "90 - Net profit (loss) from hedging".

With regard to generic fair value hedging transactions (macro-hedges), changes in fair value of the hedged risk of assets and liabilities subject to hedging are recorded in the balance sheet, respectively, under item "60 - Change in value of macro-hedged financial assets" or "50 - Change in value of macro-hedged financial liabilities". The offsetting item for changes in value in both the hedged element and the hedging instrument, similar to specific fair value hedges, is item "90 - Net profit (loss) from hedging" in the income statement. In the event of termination of a generic fair value hedging relationship, the cumulative revaluations/write-downs recorded in the above-mentioned balance sheet items are recognised in the income statement under interest income or expense for the residual duration of the original hedging relationships, subject to verification that the prerequisites have been met.

Cash flow hedging

The changes in fair value of the hedging instrument are posted to a specific shareholders' equity reserve (item "120 - 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 cash flow hedge is no longer considered effective, or the hedging relationship is terminated, the total amount of profits or losses on the hedging instrument, already recognised under



“Valuation reserves”, is recognised in the income statement only in the when the hedging transaction will take place or when it is no longer considered possible for the transaction to occur; in the latter circumstance, the profits or losses are transferred from the shareholders’ equity item to the income statement item “90. Net profit (loss) from hedging”.

Hedges of foreign currency investments

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

d) derecognition criteria

If the tests do not confirm hedge effectiveness, both retrospectively and prospectively, hedge accounting is discontinued as described above. In this circumstance, the hedging derivative contract is reclassified under “Financial assets measured at fair value through profit or loss” and in particular under financial assets held for trading.

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.

As an exception to the provisions of IAS 39, discontinuing is not carried out following the updating of the documentation on the hedging relationship (due to the change in the hedged risk, the hedged underlying, the hedging derivative or the method for verifying the resilience of the hedge) in the event of changes necessary as a direct consequence of the Reform of the reference indices for the determination of interest rates (IBOR Reform) and carried out on an equivalent economic basis.

5 Equity investments

a) classification criteria

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

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 shareholders’ 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 Group and one or more other parties based on contracts or agreements of another nature, according to which financial and management decisions with strategic purposes are made through the unanimous consent of all parties that share control. This occurs when the voting rights and control of the economic activity of the investee are shared equally by Banca MPS and another entity. In addition, a joint investment is defined as an equity investment in which, even in the absence of an equal share of voting rights, the unanimous consent of all parties sharing control is required for the making of resolutions concerning the relevant activities.

For further information, please refer to section 7.6 “Key considerations and assumptions to determine the existence of joint control or significant influence” in Part B – “Assets” of these Notes to the financial statements.

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 are valued using the synthetic equity method. This method envisages that the initial book value is subsequently increased or decreased to reflect the Group’s share of the total profits and losses of the investee realised after the acquisition date as an offsetting entry to the income statement item “250 - Gains (losses) on investments”.



If it becomes necessary to recognise impairment deriving from changes in the investee's net equity that the investee has not recognised in the income statement (e.g., changes from the fair value measurement of financial assets measured at fair value through other comprehensive income and from the measurement of actuarial gains/losses on defined benefit plans), the portion of these changes attributable to the Group is recognised directly in the equity item "120 - Valuation reserves".

In applying the equity method, the most recent available financial statements of the associate/jointly controlled company are used, appropriately adjusted to reflect any significant events or transactions that took place between the date of these financial statements and the reporting date. If the investee uses accounting standards that differ from those applied by the Group, the investee's financial statements are modified.

After applying the equity method, the equity investment is subject to an impairment test if there is objective evidence of a loss in value that could affect the investee's cash flows and therefore the recoverability of the investment's carrying amount.

If evidence of impairment indicates that there may have been a loss in value of an equity investment, then the recoverable value of the equity 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 equity investment, including those arising from its final disposal. Should the recoverable value be less than its book value, including any goodwill, the difference is recognised immediately in the income statement under item "250 - Gains (losses) on investments". Should the reasons for impairment no longer apply as a result of an event occurring after the impairment was recognised, reversals of impairment losses are charged to the same item in the income statement, up to the amount of the previously recognised impairment.

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

The dividends from these equity investments are recognised in the Parent Company's income statement, regardless of whether it was generated by the investee before or after the acquisition date. In the consolidated financial statements, these dividends are shown as a reduction in the book value of the investee.

The result of the disposal of equity investments measured according to the equity method is recognised in the income statement under item "250 - Gains (losses) on investments", while the result of the disposal of equity investments other than those measured at equity is recognised in the income statement under item "280 - Gains (losses) on disposals of investments".

d) derecognition criteria

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

6 Property, plant and equipment

a) classification criteria

Property, plant and equipment include land, properties for business use, investment properties, systems, furnishings and fixtures, equipment of any type and artworks.

Operating properties are properties owned by the Group and used in the production or supply of goods and 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 Group 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).

This item also includes tangible assets classified according to IAS 2 "Inventories", which mainly relate to assets arising from the enforcement of guarantees or from the purchase at auction that the company intends to sell in the near future, without carrying out significant restructuring work, and which do not qualify for classification in the previous categories.

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

This category also includes i) rights of use acquired through leasing, both financial and operating, relating to property, plant and equipment that the Group uses as lessee in the business or for investment purposes, ii) assets



granted under operating leases (for lessors), as well as iii) improvements and incremental expenses incurred on owned assets and third-party assets, the latter provided they are identifiable and separable (e.g. ATM).

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 benefits are booked as an increase in the value of the assets, while expenses for ordinary maintenance are booked to the income statement.

c) measurement criteria and revenue recognition criteria

Subsequent to initial recognition, property, plant and equipment for business use are valued at cost, as defined above, net of cumulative depreciation and any cumulative impairment, with the exception of:

- real estate used in the business for which the Group has adopted the option allowed by IAS 16, to measure them on the basis of the revaluation method;
- properties held for investment purposes, for which the Group has adopted the option, permitted by IAS 40, of measuring them on the basis of the fair value method;
- property, plant and equipment falling under IAS 2 are valued at the lower of the cost 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.

The revaluation method requires that assets be carried at a restated amount, equal to the fair value at the date of revaluation, less any accumulated depreciation and value adjustments. More specifically:

- if the carrying amount has increased following a revaluation, the increase is recognised with an offsetting entry in liability item “120 - Valuation reserves”, with the exception of write-backs of previous impairment recognised in the income statement, which are recognised in the income statement in item “260 - Net gains (losses) on property, plant and equipment and intangible assets measured at fair value” within the limits of the above-mentioned impairment;
- if the carrying amount of an asset has decreased following a revaluation, the decrease is recognised in the income statement in item “260 - Net gains (losses) on property, plant and equipment and intangible assets measured at fair value” unless the asset has been subject to a previous revaluation, in which case the impairment is recognised as a reduction of the liability item “120 - Valuation reserves”, for up to its total amount.

For capital properties, the Group reassesses the value at least once a year by means of appraisals prepared by independent experts.

Property, plant and equipment held for business use, including operating properties measured at the “restated value”, are systematically depreciated over their useful life. The depreciable amount, equal to cost (or the net revalued value, if the revaluation method is adopted for valuation purposes) less the residual value (or the amount normally expected to be obtained from disposal, after deducting expected costs to sell, if the asset is already in the conditions, including in relation to age, expected at the end of its useful life), is broken down on a straight-line basis throughout the useful life of the asset, adopting the straight-line approach as the depreciation method. The useful life, subject to periodic review to identify any estimates significantly different from the previous ones, is defined as:

- the period of time in which it is expected that an asset will be usable by the company or,
- the quantity of products or similar units that the company expects to obtain from the use of the asset.

Depreciation begins when the asset is available for use and ends at the most recent date between that on which the asset is classified as held for sale and that of derecognition. For property, plant and equipment valued at cost, depreciation does not end when the asset becomes unused or is withdrawn from active use, unless the asset has already been fully depreciated. If a property for business use becomes unusable or is withdrawn from active use, it is necessary to promptly evaluate the change in the intended use and the resulting reclassification to investment property or assets held for sale. In these cases, depreciation is discontinued.

The following are not amortised:

- land, either on its own or included in the property value, is not subject to depreciation as it has an indefinite useful life;
- works of art as their value is generally bound to increase over time;



- investment properties, as required by IAS 40, which are measured at fair value with a balancing entry in the Income Statement and therefore must not be depreciated;
- tangible assets recognised in accordance with IAS 2.

For leasehold improvements, represented by identifiable and separable tangible assets, depreciation is determined according to the useful life of these assets.

Periodic depreciation is posted to the income statement under item “210 - Net value adjustments to/recoveries on property, plant and equipment”.

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, for properties that are owned, with the exception of investment property, and those that are leased, a comparison is made between the book value of the asset and the asset's recoverable value, i.e. the higher of the fair value, less any costs to sell, and the relevant value in use, which is the present value of the future cash flows generated by the asset.

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

Under the fair value method, used for property investments, the positive or negative change in fair value is recognised in the Income Statement in item “260 - Net gains (losses) on property, plant and equipment and intangible assets measured at fair value”. For the measurement of the fair value of the property assets in question, a fair value estimation process is carried out at least annually.

For the methods used to measure the fair value and the periodicity of recalculation of real estate assets, please refer to the criteria illustrated in “Part A.4 - Information on fair value” below.

Property, plant and equipment falling under IAS 2 are valued in the same way as inventories and, therefore, at the lower of the cost at initial recognition and the net realisable value, represented by the estimated sale price less the presumed costs for completion and the other costs necessary to make the sale. Any losses in value are posted to the income statement under item “210 - Net value adjustments to/recoveries on property, plant and equipment”.

Property, plant and equipment represented by the right of use of assets under lease agreements

Pursuant to IFRS 16, a “lease” is a contract, or part of a contract, which, in exchange for a consideration, transfers the right of use (RoU) of an asset (the underlying asset) for a period of time.

The right-of-use asset acquired through the lease is recognised in the financial statements at the start date of the contract, i.e. at the date on which the asset is made available to the lessee and is initially valued at cost. This cost includes:

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

In connection with the right of use asset, the lessee recognises a liability for the lease under item “10 - Financial liabilities measured at amortised cost” corresponding to the present value of payments due for the lease. The discount rate used is the implicit interest rate, if it can be determined; otherwise, the lessee's marginal borrowing rate is used. When there is no implicit interest rate in the contract, the Group uses, as the discount rate, the maturity curve aligned to the individual lease agreements, consisting of the 6M Euribor base rate and the blended funding spread, the latter equal to the weighted average of the funding curves for unsecured senior bonds and for protected and privileged deposits. The adoption of this curve is in line with the characteristics of lease agreements, which typically provide for fixed fees throughout the duration of the contract, and of the underlying assets. The discount rate so defined takes into account the creditworthiness of the tenant, the duration of the lease, the asset underlying the right of use and the economic environment, identified in the Italian market, where the transaction takes place and therefore it is in line with the requirements of the standard.

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



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

- short-term leases (equal to or less than 12 months) that do not include a purchase option of the asset leased by the lessee;
- leases in which the underlying asset is of modest value.³⁴

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

The lease term is determined taking into account:

- periods covered by an option to extend the lease, if the exercise of the same is reasonably certain;
- periods covered by a lease termination option, if the exercise of said option is reasonably certain.

During the term of the lease, the lessee must:

- measure the right of use at cost, net of accumulated amortisation and cumulative value adjustments determined and recognised on the basis of the provisions of IAS 36 "Impairment of assets", adjusted to take into account any restatements of the lease liabilities;³⁵
- increase the liability deriving from the lease transaction following the accrual of interest expense calculated at the implicit interest rate of the lease, or, alternatively, at the marginal borrowing rate and reduce it for payments of principal and interest.

In the event of changes in the payments due for the lease, the liability must be restated; the impact of the recalculation of the liability is recognised as a contra-entry to the asset consisting of the right of use.

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 benefits are expected as a result of their disposal.

Any gains and losses deriving from the disposal or sale of property, plant and equipment are calculated as the difference between the net sale price and the book value of the asset and are recognised in the income statement under item "280 - Gains (losses) on disposals of investments".

In the case of the sale of a property for business use, the corresponding valuation reserve accrued is transferred to other components of Shareholders' equity, specifically liability item "150 - Reserves", with no reversal to profit or loss.

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

7 Intangible assets

a) classification criteria

Intangible assets are non-monetary assets, identifiable and without physical substance, originating from legal or contractual rights, held for use over a multi-year or indefinite period, from which it is probable that future economic benefits will flow and whose cost can be reliably measured.

Intangible assets 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 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 benefits. Capitalised costs for software development only include the expenses that are directly attributable to the development process.

³⁴The significance threshold identified is EUR 5,000

³⁵ In determining the amortisation period, account must be taken of whether or not the transfer of ownership of the underlying asset is envisaged at the end of the lease term or whether the cost of the asset consisting of the right of use reflects the fact that or not that the lessee will exercise the purchase option. In the first case, the amortisation period coincides with the useful life of the underlying asset, determined at the start date. In the second case, the amortisation period coincides with the useful life of the asset consisting of the right of use or, if shorter, the duration of the lease.



- Customer relationship intangible assets, represented by the value of assets under management/custody and core deposits in the event of business combinations;
- goodwill, equal to the positive difference between the consideration paid for a business combination and the fair value of the assets and liabilities pertaining to an acquired company, as best specified in paragraph “16 – Other information, Business combinations”.

b) recognition criteria

They are recognised at cost, adjusted by any additional charges only if it is probable that the future economic benefits 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 financial period it was incurred.

c) measurement criteria and revenue recognition criteria

The cost of intangible assets with a finite useful life is amortised on a straight-line basis over their useful life. In particular, for intangible assets originating from software developed internally and acquired from third parties, amortisation begins when the applications are completed and become operational. Instead, intangible assets with indefinite useful life are not amortised but the book value is periodically assessed for impairment.

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

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

The amount of the impairment loss is determined by the difference between the book value of goodwill and its recoverable amount, if lower. Said recoverable amount is the higher of the cash generating unit's fair value, less costs to sell, and its value in use. Value in use is the present value of future cash flows expected to arise from the years of operation of the cash generating unit and its disposal at the end of its useful life. The resulting value adjustments are posted to the income statement under item “220 - Net value adjustments to (recoveries on) intangible assets”. The same item includes the periodic amortisation of intangible assets with a finite useful life. 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 benefits are expected.

8 Non-current assets held for sale and disposal groups

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 “120 - Non-current assets held for sale and disposal groups” and in liabilities under item “70 - Liabilities associated with disposal groups”.

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

b) measurement criteria and revenue recognition criteria

Following initial recognition, non-current assets held for sale and disposal groups, 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.

Should the assets and liabilities held for disposal be attributable to disposal group (identifiable with the operations of a significant independent business unit or geographical area, also as part of a single coordinate disposal project, rather than an investee company acquired exclusively for resale), the relative revenues and charges, net of tax, are



recognised in the income statement under item “320 - Profit (Loss) after tax from discontinued operations” of the income statement. Profit and loss associated with individual assets under disposal are recognised in the most appropriate income statement item.

c) derecognition criteria

Non-current assets and group of assets/liabilities held for sale and disposal groups 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 financial year and current tax assets with the Financial Administration, comprising tax advances, tax credit arising from prior tax returns and other withholding tax credits. In addition, current tax includes tax credit for which reimbursement has been requested from the relevant tax authorities. Tax credits transferred as a guarantee of own debts shall also be recorded within this scope.

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

Deferred tax assets determined on the basis of deductible temporary differences are recognised in financial statements 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 “Tax consolidation” – to generate a positive taxable profit on an ongoing basis, in light of a probability test.

The probability of the recovery of deferred taxes relative to goodwill, other intangible assets and write-downs on loans (known as “convertible 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 Italian 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 financial year in which the loss is incurred.

As a result of the provisions contained in Italian Law Decree no. 83 of 27 June 2015, the convertible DTAs 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 Italian 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 (Italian Law no. 145 of 30 December 2018) repealed the full deductibility of loan write-downs upon first-time application of IFRS 9, exclusively following the adoption of the model for recognising the provision to cover expected losses (ECL), providing for the deductibility (IRES and IRAP) of these write-downs on a straight-line basis over 10 financial 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 Law Decree 225/2010. It should also be noted that the portion referring to 31 December 2019 was deferred to 31 December 2028, as a result of the 2020 Budget Law (Italian Law no. 160 of 27 December 2019).

Furthermore, note that MPS Group exercised the irrevocable option provided in Italian 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 financial 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, TUIR); as a result, verifying the existence of future taxable profit against which to use such losses is not subject to any time limits.

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

Deferred tax assets and liabilities are calculated using the tax rates expected at the date on which the temporary differences are reversed, on the basis of the provisions in force at the reporting date. In particular, for the purposes of the recognition of deferred tax assets, it was taken into account that Article 5 of Italian Legislative Decree no. 216 of 30 December 2023 repealed the ACE subsidy with effect from 2024. 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 Group companies.

With reference to fiscal consolidation of the Parent Company and participating subsidiaries, contracts have been stipulated to regulate offsetting flows in relation to the transfers of tax profits and losses. Such flows are determined by administering the applicable IRES tax rate to the taxable income of participating companies. The offsetting flow for companies that transfer tax losses – calculated as above – is posted by the consolidating to the consolidated company when and to the extent to which the consolidated company will transfer positive taxable income in tax periods subsequent to that in which the loss was recorded. Offsetting flows so determined are posted as receivables and payables with companies participating in fiscal consolidation, classified under other assets and other liabilities, offsetting item "300 - Tax expense (recovery) on income from continuing operations".

The Group has not recognised and does not provide information on deferred tax assets and liabilities relating to Pillar 2 income taxes published by the Organization for Economic Co-operation and Development (OECD), as stated in paragraph 4A of IAS 12.

c) revenue recognition criteria

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



10 Provisions for risks and charges

Provisions for risks and charges: commitments and guarantees given

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 given 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 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 financial year, are recognised for the full amount in the statement of comprehensive income, under the item “Valuation reserves”. For further details, please refer to the following paragraph “16 - Other information - Severance pay and other employee benefits”.

Provisions for risks and charges: other provisions

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

The sub-item also includes provisions established at the starting date of lease agreements, stipulated as lessee, which require the dismantling/refurbishment of the underlying assets at the end of the contract. These provisions are recognised as a contra-entry of the assets recognised for the value of rights of use of properties (see item “90 - Property, plant and equipment”).

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 benefits is likely to be necessary in order to settle the obligation; and
- a reliable estimate can be made of the likely future disbursement.

The amount recognised as a provision represents the best estimate of the financial disbursement necessary to fulfil the obligation existing at the reporting date and reflects the risks and uncertainties inherent in the events and situations reviewed. Whenever the time element is meaningful, the provisions are discounted using the current market rates. With the exception of provisions associated with lease agreements, the allocation and discounting effect are recorded in the income statement under item “200 - 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.

In particular, it should be noted that the provisions relating to:



- civil and criminal disputes arising from financial information disclosed in the period 2008-2015 are determined as the weighted average of two estimates prepared by external experts:
 - 1) the “differential damage” criterion, which identifies the damage as the lowest price that the investor would have had to pay if he had access to complete and correct information;
 - 2) the so-called “full compensation criterion”, which is based on the argument that false or incomplete information may have a causal impact on the consumer’s choice of investments such that, in the presence of correct information, they would not have *tout court* have made the investment in question. On the basis of this argument, the refundable damage is deemed to be the entire amount invested, after deduction of (a) the residual value of the security (or the amount obtained from the sale of the security), as well as (b) an additional amount that the investor could have obtained from the sale of the securities as soon as parity of information had been re-established;
- out-of-court claims relating to the period 2008-2015, in order to take into account the probability of their transformation into real disputes, the funds were determined by applying an experiential factor to requests made by counterparties;
- representations and warranties issued in connection with the transfer and spin-off of non-performing loans are determined on the basis of the analysis of the validity of the claims received, or, in the absence of suitable elements to make a sufficiently reliable estimate, using a statistical method. In the second case, the estimate is based on the results of a representative sample of exposures transferred/demerged with respect to which the competent functions analytically evaluate the compliance or compliance risk for each of the representations and warranties released; in the context of this estimate the sample to be analysed and whose results are extrapolated to the entire population is identified.

11 Financial liabilities measured at amortised cost

a) classification criteria

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

This item also incorporates payables booked by the lessee in relation to any stipulated finance and operating lease transactions, as well as repurchase agreements for funding and securities lent against cash guarantees that are fully available to the lender. Finally, operating payables related to the provision of financial services, as defined in the Consolidated Banking Law 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 costs/income directly attributable to the individual funding or issuing transaction and not reimbursed by the creditors. Internal administrative expenses are excluded.

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

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

Lease liabilities recognised to the lessor are measured as the present value of future lease payments still to be paid for the duration of the lease. For more information on determining the duration, please refer to paragraph 6 “Property, plant and equipment represented by the right of use of assets under lease agreements”.

c) measurement criteria and revenue recognition criteria

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

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



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

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 disposal or repurchase”. A new placement in the market of own securities after their repurchase is considered as a new issue and posted at the new price of placement, with no impact on the income statement.

12 Financial liabilities held for trading

a) classification criteria

This item includes:

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

After initial recognition, financial liabilities held for trading are measured at fair value, with the result of the measurement recognised in the income statement. For a description of criteria used to determine the fair value of financial instruments, please see Section “A.4.5 Fair Value Hierarchy” in Part A of these Notes to the financial statements.

d) revenue recognition criteria

Profit and losses from trading and capital gains and losses from valuation are recognised under item “80 - Net profit (loss) from trading” in the income statement, including those relating to derivative instruments related to the fair value option.

e) derecognition criteria

Trading 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 arising from ownership.

13 Financial liabilities measured at fair value

a) classification criteria

This category includes financial liabilities for which, upon initial recognition, the option of measurement at fair value through profit or 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 or loss is consistent with an investment or risk management strategy documented as such by senior management; or
3. a host instrument embeds a derivative which significantly modifies the cash flows of the host and should otherwise be unbundled.

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

The Parent Company 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 “120 - Valuation reserves”, for the portion related to the change in fair value that is attributable to changes in the issuer’s creditworthiness, unless this creates or increases an accounting mismatch in the profit (loss) for the year, in which case the entire change in fair value of the liability must be charged to the income statement. Effects associated with the change in own creditworthiness are recorded in the statement of comprehensive income, net of the related tax effect, along with the other income components that will not be reversed to the income statement. The amount charged to the specific equity reserve will never be reversed to the income statement, even if the liability expires or lapses; in this case, the cumulative gain (loss) in the specific valuation reserve must be reclassified to another shareholders’ equity item (“150 - Reserves”);
- in the income statement under item “110 - Net profit (loss) from financial assets and liabilities measured at fair value through profit or loss”, for the portion of the fair value change not attributable to changes in own creditworthiness.

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

d) derecognition criteria

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

For financial liabilities represented by securities issued, derecognition also occurs if previously issued securities have been repurchased. The difference between the book value of liabilities and the amount paid to purchase them is recorded in the income statement under item “110 - Net profit (loss) from financial assets and liabilities measured at fair value through profit or 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 reporting date. 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 financial year when the investment is disposed of or reduced.

15 Insurance assets and liabilities

The scope of consolidation does not include any insurance companies.

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 all loans “on demand” in the form of current account and deposits with the central bank of the country or countries in which the Group operates through its own companies or branches, with the exception of the compulsory reserve.

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

Change in value of macro-hedged financial assets and liabilities

These items include, respectively, the positive or negative balance of changes in fair value of assets (item “60 Value adjustment of financial assets subject to macro-hedging”) and financial liabilities (item “50 Adjustment of value of financial liabilities subject to macro-hedging”), subject to macro-hedging against interest rate risk, whose economic counter-entry is represented by item “90 Net profit (loss) from hedging”, as well as for specific fair value hedges. For more detailed information, please refer to the discussion in paragraph 4 “Hedging transactions”.

Other assets

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



- gold, silver, metals and precious stones;
- items in processing;
- accrued income and prepaid expenses not attributable to its own separate item;
- receivables associated with the provision of non-financial goods or services and accrued income other than that which is capitalised on the related financial assets, including those resulting from contracts with customers pursuant to IFRS 15;
- costs incurred for the acquisition and fulfilment of contracts with customers with a multi-year duration, capitalised and amortised to the extent that they are incremental and it is expected to be recovered, as required by paragraphs 91 et seq. of 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 “110 - Tax assets”;
- the tax credits associated with the “Cura Italia” and “Rilancio” Law Decrees,
- improvements and incremental expenses incurred on third-party real estate other than those attributable to item “90 - Property, plant and equipment” and therefore not independently identifiable and separable.

The costs in the latter bullet point are posted to item “130 - 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 “230 - 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 the other items on the liabilities side of the balance sheet and includes, for example:

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

Severance pay and other employee benefits

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

Conversely, the severance pay accrued up to 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 financial 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 “120 - 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 equity securities designated at fair value through other comprehensive income, financial assets (other than equity securities) measured at fair value through other comprehensive income, foreign investment hedging, cash flow hedges, exchange rate differences, “individual assets” and groups of assets under disposal, the portion of valuation reserves of equity-accounted equity investments, actuarial gains (losses) on defined benefits investment plans, gains/losses related to the change in own creditworthiness relating to liabilities under fair value option, property for business use measured on the basis of the restated value method.

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 Group. 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 share 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 financial year in which the Shareholders’ Meeting approved their distribution.

Non-controlling interests

This item represents the portion of consolidated net equity attributable to minority shareholders, calculated based on the “equity ratios”. The amount is calculated net of any treasury shares repurchased by the consolidated companies.

Other significant accounting practices

Revenues from contracts with customers (IFRS 15)

Revenues are gross inflows of economic benefits during the financial year in the form of consideration for the obligation to transfer to the customer a wide range of goods and services considered part of ordinary business activities. IFRS 15 “Revenue from contracts with customers” introduced a model for the recognition of revenues deriving from contractual obligations with customers, which is based on the concept of transfer of control and not only on the concept of 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 revenue calculation purposes, the consideration is defined as the amount believed to be due in exchange for the transfer of goods and services and may include fixed amounts, variable amounts, or both. Specifically, the contract's consideration may vary based on reductions, discounts, reimbursements, incentives, performance bonuses, or other similar elements. The consideration may also vary depending on whether a future event occurs (as in the case of a fee linked to performance objectives).

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

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

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

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

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

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

In addition, the Group 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 Group entails that recognition of the portion of revenue attributable to the recognised reward points in the income statement is suspended, as an offsetting entry to other liabilities. For this purpose, the transaction price of the performance obligation associated with the reward points granted is estimated, using a model based on the fair value of the reward points, calculated using several factors including: redemption forecasts for the reward points accrued by customers and the cost related to reward purchases. The amount of consideration that can be allocated to the reward points is recognised as a refund liability; it is released to the income statement only when the obligations related to the reward points have been fulfilled, i.e., when they are effectively redeemed by the customer.



Lastly, the incremental costs for obtaining the contract that are expected to be recovered and the costs for fulfilling the contract are capitalised when these costs can be directly attributed to the contract, can generate resources that can be used to fulfil future contractual performance obligations, and be considered recoverable. This recognised asset is systematically amortised in accordance with the transfer to the customer of the good or service to which the asset refers and, therefore, in accordance with the accounting of the corresponding revenues.

Revenues and costs relating to financial instruments

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

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

Costs for constant services and decreasing payments

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

In detail, in cases of the provision of services characterised by a constant volume over time and decreasing payments, an average unit cost is assigned to the services received and the related costs are recognised on straight-line basis. This straight-line method for posting costs entails the need to recognise a prepaid asset which, at each reporting date pursuant to IAS 36, is subject to an assessment to determine if there are impairment indicators which also take into account the analyses carried out for purposes of onerous contracts. In the event that impairment indicators are identified, the recoverable value of the asset must be calculated and a write-down must be recognised in the financial statements when the recoverable value is lower than the book value.

Share-based payments

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

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

Pursuant to IFRS 2, payments based on treasury shares fall into various categories, including:

- as “equity settled” plans, i.e. settled in equity instruments, to be recognised on the basis of the fair value of the work services received.



- as “cash-settled” plans, i.e. settled in cash for an amount indexed to the value of the shares, to be recognised based on the fair value of the liability assumed.

With regard to “equity-settled” plans, 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 “190 a) - Personnel expenses” as an offsetting entry to an increase in the item “150 - Reserves”.

In the case of “cash-settled” plans, on the other hand, the cost of the work services received is recognised in the Income Statement item “190 - a) Personnel expenses” as a balancing entry to a liability to be measured at fair value based on the price of the shares assigned. The fair value must be updated at the end of each financial year and at the settlement date by posting changes in fair value to the income statement until the liability is extinguished.

When the assigned shares or countervalue 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”).

Financial instruments offsetting

Pursuant to IAS 32, paragraph 42, financial assets and financial liabilities are offset and recognised in the Financial Statements for the net balance if the entity:

- has a legal right to effect such set-off, which is currently exercisable in all circumstances, whether in the ordinary conduct of business or in situations of non-performance, insolvency or bankruptcy of the parties;
- intends to settle transactions on a net settlement or on a gross settlement basis whose material effect is equivalent to a net settlement.

For derivative instruments covered by offsetting agreements that comply with the requirements outlined above, Circular No. 262 provides for offsetting between trading and hedging derivatives as well, with such imbalances to be shown on a net basis: conventionally, the net balance is allocated to the trading portfolio rather than to hedging derivatives, depending on the absolute value of the imbalance between the trading and hedging derivatives.

In accordance with the requirements of IFRS 7, more detailed information is provided in the tables contained in Part B - Other Information of these Notes to the financial statements, in which the following are more specifically set out:

- the book values of assets and liabilities that meet the requirements of IAS 32, paragraph 42, before and after accounting offsetting;
- exposures subject to framework offsetting agreements that have not given rise to offsetting but which may potentially trigger offsetting as a result of specific circumstances;
- the collateral attached to them.

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 financial statements.

A business combination may give rise to an investment link between the acquiring Parent Company and the acquired subsidiary. In these cases, the acquirer applies IFRS 3 “Business combinations” to its consolidated financial statements, while in the separate financial statements it recognises the acquired interest as an equity investment 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.

Allocation of the acquisition price (“Purchase Price Allocation”)

According to the purchase method, at acquisition date the acquirer must allocate the cost of the business combination (known as PPA, “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. Exceptions to the application of this standard are the recognition of: (i) income taxes; (ii) liabilities relating to employee benefits; (iii) assets deriving from indemnities; (iv) share-based payment transactions; (v) assets held for sale and (vi) reacquired rights for which the respective reference standards apply.

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

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

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

Once control has been obtained and the purchase method described above has been applied, any further increase or decrease in the equity interest in a subsidiary in which control is maintained is recognised as a transaction between shareholders. Therefore, the book values of the shareholders' equity of the Group and non-controlling interests 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 the valuation reserves of financial assets measured at fair value through other comprehensive income) must be accounted for in the same way as if the parent company had directly disposed of the assets or the related liabilities (through reclassification in the income statement or shareholders' equity).

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

Business combinations under common control

Business combinations of entities under common control are excluded from the scope of application of IFRS 3 and in the absence of a reference standard, such business combinations are accounted for by referring to Assirevi Preliminary Guidance No. 1 and No. 2 (OPI 1 - "Accounting treatment of business combinations of entities under common control" in the separate and consolidated financial statements and OPI 2 - "Accounting treatment of mergers in the financial statements"). These guidelines consider the economic significance of business combinations on the basis of cash flow impact on the Group. Transactions that do not have a significant impact on future cash flows are recognised on a going-concern basis. In particular, the values adopted are those resulting from the Consolidated Financial Statements of the Group at the date of transfer of the assets. This is in compliance with the provisions of IAS 8, paragraph 10, which requires, in the absence of a specific standard, to use one's judgement in applying an accounting standard in order to provide relevant, reliable, prudent disclosure that reflects the economic substance of the transaction.

Amortised cost

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

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

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

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

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

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

Transaction costs include marginal internal and external costs and income attributable to the issue, acquisition or sale of a financial instrument that cannot be charged to the customer. These fees, which must be directly attributable to the individual financial assets or liabilities, impact the original effective return and make the effective interest rate associated with the transaction different from the contractual interest rate. Indistinguishable costs/income 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: rebate fees, fees for failure to use, and for early repayment.



The costs that the Group incurs regardless of the transaction (for example, administrative, stationery, communication costs), those which, although specifically attributable to the transaction, fall within the normal practice of loan management (for example, activities aimed at disbursing the loan), as well as commissions for services collected following the performance of structured finance activities that would have been collected regardless of the subsequent financing of the transaction (such as, for example, facilities and arrangements fees) are also not considered in the calculation of the amortised cost.

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 or loss, transaction costs include both commissions for contracts with brokers operating on Italian stock markets and commissions paid to intermediaries operating on foreign stock and bond markets defined on the basis of commission tables.

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

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

The amortised cost also applies to the measurement of the impairment of the financial instruments listed above as well as to the recognition of those issued or purchased at a value other than their fair value. The latter are recognised at fair value, rather than for the amount collected or paid, calculated by discounting future cash flows at a rate equal to the effective rate of return of similar instruments (in terms of creditworthiness, contractual maturities, currency, etc.), with the simultaneous recognition in the income statement of a financial expense or income; subsequent to the initial valuation, they are measured at amortised cost with the highlighting of actual interest greater or less than the nominal interest. Lastly, structured liabilities that are not measured at fair value through profit or loss are also measured at amortised cost as the derivative contract embedded in the financial instrument has been recognised separately.

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 to loans without a defined maturity or revocation.

Purchased or originated impaired financial assets (known as POCI)

These are instruments for which the credit risk is very high and which, in the event of purchase, are purchased at a considerably discounted value compared to the initial disbursement value; for this reason, they are considered already credit impaired at the time of first recognition in the Financial Statements. Depending on the Business Model with which the asset is managed, these assets are classified in item “30 - Financial assets measured at fair value through other comprehensive income” or in item “40 - Financial assets measured at amortised cost” and among off-balance sheet exposures.

In relation to POCIs, there are two different types:

- instruments or portfolios of non-performing loans acquired on the market (Purchased Credit Impaired – “PCI”);
- credits disbursed by the Group 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. It should be noted that, regardless of the stage in which they are recorded, these financial assets are accounted for separately from the three stages of credit risk.

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 Group uses contractual cash flows net of expected losses.

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

Loan renegotiations

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

In general, changes to a financial asset result in its derecognition and to the recording of a new asset when these changes are “substantial”. The determination of the “substantiality” of the change is made by considering only qualitative elements. In particular, renegotiations are deemed to be substantial when:

- introduce specific objective elements that impact on the characteristics and/or the financial flows of the financial instrument (such as for example the change in the currency, the change of the counterparty not belonging to the same group as the original debtor, the introduction of indexing to equity or goods parameters, the introduction of the possibility of converting the loan into participatory equity/financial instruments, and the provision of “pay if you can” clauses which allow the debtor the maximum freedom in repaying the loan in terms of time and amount) in consideration of the significant impact expected from the original financial flows; or
- are implemented with respect to customers that have no financial difficulties, with the objective of adapt the onerousness of the contract to current market conditions.

In the latter case, note that, if the Group does not allow a renegotiation of contractual conditions, the customer would have the opportunity to obtain funding from another intermediary, with resulting loss to the Group of the revenue streams envisaged in the renegotiated contract. In other words, for a commercial renegotiation, the Group 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 insubstantial, the gross value is recalculated by determining the present value of cash flows resulting from the renegotiation, based on the original rate of the exposure prior to the renegotiation. The difference between this gross value and the gross book value prior to the change is recorded in the income statement under item “140 - Gains/losses from contractual changes without cancellation” (known as “modification accounting”).

In the case of non-substantial renegotiations, the modifications granted to counterparties experiencing financial difficulties (granting of forbearance measures) are attributable to the Group’s attempt to maximise the recovery of the original exposure, whose risks and benefits continue to be borne by the Group. 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.

Lastly, the changes to financial assets following the Reform of the reference indices for the determination of interest rates (IBOR Reform), relating to the change in the basis for determining the contractual cash flows (replacement of the reference index for determining the existing interest rates with an alternative reference rate), do not constitute a derecognition but rather are accounted for as a change. These changes, if made as a direct consequence of IBOR Reform and on an equivalent economic basis, are represented by a prospective adjustment of the actual interest rate - applying paragraph B5.4.5 of IFRS 9 instead of “modification accounting” - with impacts on the net interest income of future periods.



Fair value option

In its financial risk management policy, relating to financial instruments included in the banking book, the Parent Company 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).

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. Therefore, the Fair Value Option cannot be used for the accounting management of hedges of funding instruments issued prior to the decision to implement the hedge; for these hedges, the hedge accounting technique must be used, which is also used to manage the hedging of the 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 issues of the same issuer are used in active markets, rather than the Parent Company'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 or 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 or 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 "120 - 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 designated 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

Following the incorporation into national law, Directives 2014/49/EU (Deposit Guarantee Schemes Directive - "DGSD") of 16 April 2014 and 2014/59/EU (Bank Recovery and Resolution Directive - "BRRD") of 15 May 2014, starting from the 2015 financial year, credit institutions are obliged to provide the financial resources



necessary for the operation of the FITD (Interbank Deposit Protection Fund) and the National Resolution Fund (merged into the SRF - Single Resolution Fund in 2016), through the payment of ex-ante ordinary contributions to be paid annually, until 1% of the total protected deposits are reached by 31 December 2023. Should the financial means available to the FITD and/or the SRF not be sufficient, respectively to guarantee the reimbursement of the protected deposit or to finance the resolution, it is required that credit institutions make the payment of extraordinary contributions. Contributions are recognised under item “190 – Administrative expenses – (b) Other administrative expenses” in the income statement, in application of the IFRIC 21 “Levies” interpretation, on the basis of which a liability related to the payment of levies derives from the occurrence of the “binding event” which triggers the payment obligation. The contributions are considered, from an accounting point of view, similar to a levy and the moment of onset of the “binding event” was identified in the first quarter for the SRF and in the third quarter for the FITD.

The ordinary contribution to the SRF for the year 2023 amounted to EUR 58.6 mln, down by EUR 30.1 mln compared to the contribution of 2022, due to a reduction in the annual target level of the Fund and the base contribution of the Group. In this regard, it should be noted that for 2023, as in the previous year, the Group did not avail itself of the possibility of complying with the request through the assumption of an irrevocable payment commitment (IPC). Consequently, the contribution has been fully recognised in the income statement.

The ordinary contribution to the FITD, recognised in the income statement for 2023, amounted to EUR 75.1 mln, down by EUR 14.9 mln compared to the 2022 figure, mainly due to the reduction in the Group’s risk indicators.

Synthetic securitisations

In synthetic securitisation transactions, the Group, through the execution of a financial guarantee contract, acquires protection against the credit risk underlying a loan portfolio, of which it retains full ownership. These transactions have the objective of freeing up regulatory and economic capital by reducing the level of credit risk of the portfolio underlying the transaction (*Significant Risk Transfer* – “SRT”), which is transferred to an external counterparty without entailing the derecognition of the assets.

The SRT must be constantly monitored also during the life of the transaction, in order to ensure that the regulatory criteria that require the Originator to retain a share of the net economic interest equal to at least 5% of the nominal value of the securitised portfolio, are met.

The transactions are structured in different tranches according to the riskiness of the portfolio. From an accounting point of view, synthetic securitisation transactions take the form of financial guarantees received in which the Group acts exclusively on the purchaser’s side of protection against credit risk, if the following aspects are ensured:

- stipulation of the contract for the purpose of hedging credit risk, deriving from debt instruments;
- presence of the deliverable obligation, for the purposes of activation of the financial guarantee, in the financial statements of the protection buyer;
- unbudgeted payments in response to changes in specific rates, prices, ratings, exchange rates, indexes or other variables that are governed by the rules on derivatives but as a consequence of a credit event (such as a change to default);
- repayments made by the protection seller only if the protection buyer has suffered losses against the hedged asset and for an amount not exceeding the loss actually incurred.

The premium paid by the Group to investors for credit risk protection is recognised in the income statement item “50. Fee and commission expense”. The enforcement of the financial guarantee received by the investors upon the occurrence of contractually agreed conditions (known as credit event) relating to securitised loans under income statement item “130. Net impairment (losses)/reversals for credit risk”.

For further details, please refer to the information provided in these Notes to the financial statements, under “Part E – Section 1– C. Securitisation transactions”.

TLTRO III – Targeted Longer Term Refinancing Operations

The TLTRO III “Targeted longer term refinancing operations” are financing operations conducted by the ECB on a quarterly basis – in the period between September 2019 and December 2021 for a total number of ten rounds – aiming to preserve favourable conditions of bank credit and support the defined monetary policy stance. Each transaction has a duration of three years, except for any early repayment option, which can be exercised according to the timeframe established for each transaction. Following the emergency linked to the COVID-19 pandemic



and the unexpected and extraordinary increase in inflation during the second half of 2022, some of the criteria initially set forth by the ECB in 2019 were revised, between March and December 2020, in a positive sense with particular reference to the maximum amount that can be financed and the related remuneration and finally in October 2022, to “normalise” the cost of funding in order to ease inflationary pressure and re-establish stable price conditions in the medium term.

With regard to the remuneration of the loans, following the aforementioned revisions, the interest rate was set at a level equal to the average rate of the main refinancing operations of the Eurosystem (MRO), except for the period between 24 June 2020 and 23 June 2022 (“special interest rate period”), where a lower rate of 50 basis points is to be applied. An incentive mechanism has also been established which provides access to more favourable rate conditions when specific benchmarks are reached, based on the net granted loans. In this regard, since the Group has achieved these benchmarks since previous years, it is entitled to benefit from the average rate on deposits with the central bank (Deposit Facility Rate - DFR) for the entire duration of the respective transactions, with the exception of the “special interest rate period” - between 24 June 2020 and 23 June 2022 - to which is added the additional reduction of 50 basis points (and in any case not higher than -1%). In detail, with reference to the period between the settlement date of each tranche and 23 June 2020, i.e. the period immediately preceding the special interest rate period, and the period between 24 June 2022 and 22 November 2022 (together the “main interest rate period”), the interest rate for each tranche is equal to the average Deposit Facility Rate calculated with regard to the period between the related settlement date and 22 November 2022. Finally, for the period between 23 November 2022 and the maturity date or any date of early repayment (“last interest rate period”) of the relevant tranche, the interest rate is equal to the average rate on deposits with the central bank calculated in the same period.

Interest is settled in arrears at the maturity or, alternatively, at the time of the early repayment of each TLTRO III transaction.

The MPS Group applies to TLTRO III transactions the accounting treatment defined pursuant to IFRS 9, considering the refinancing conditions defined by the ECB as market rates in the context of the Eurosystem’s monetary policy measures, as the Governing Council of the ECB may change the interest rate of TLTRO III transactions prospectively at any time, as it did in April and December 2020 and most recently in October 2022. In the absence of specific indications in the reference accounting standards for the treatment of the case, the Group has defined its accounting policy by equating the loan to a variable-rate financial instrument, with recognition of interest, applicable from time to time, to be estimated on the basis of the probability of being able to achieve certain objectives in terms of “net lending”. In further detail, the rules set forth in IFRS 9 for floating-rate financial instruments (paragraph B5.4.5) are deemed applicable, in line with the treatment pursued in the past for loans obtained under previous TLTRO programmes.

In detail, the accrued interest was then calculated for each time period as follows: (i) -1% from 24 June 2020 until 23 June 2022, having achieved all net lending targets, (ii) average DFR rate calculated between the settlement date of each tranche and on 22 November 2022 for the fees to be recognised in the period prior to the special interest rate period and for the period between 24 June 2022 and 22 November 2022, (iii) average DFR rate calculated between 23 November 2022 and the expected maturity of each tranche on the assumption that the prospective interest rates are equal to the DFR in force at each refinancing date (the DFR increased from 2% to 2.5% effective from 8 February 2023, from 2.5% to 3% effective from 22 March 2023, from 3% to 3.25% effective from 10 May 2023, from 3.25% to 3.5% effective from 21 June 2023, from 3.5% to 3.75% effective from 2 August 2023 and finally from 3.75% to 4.0% effective from 20 September 2023), and that there are no prepayments.

As illustrated above, in view of the relevance of the issue at European level and the different accounting practices applied, on 9 February 2021, ESMA submitted a request to the IFRS Interpretations Committee (IFRIC) for clarification on the accounting treatment of TLTRO III transactions. In March 2022, the IFRIC, after consultation with the IASB, confirmed that this issue will be addressed in the *Post Implementation Review* (PIR) project on the Classification and Measurement of IFRS 9.

In light of the above, for the purposes of preparing these Consolidated Financial Statements, no official interpretation has been issued on this matter; however, it cannot be ruled out that, upon completion of the analyses underway by the IASB, different approaches may emerge with regard to the accounting treatment to be adopted for the accounting of the case in question compared to that carried out by the Group as at 31 December 2023.

As at 31 December 2023, TLTRO-III transactions, fully underwritten by the Parent Company, amounted to EUR 5.5 bn, a decrease of EUR 14 bn compared to the outstanding amounts as at 31 December 2022 as a result of the repayments made on 28 June and 27 September 2023, respectively, and related to two redemptions made in March and June 2021 (EUR 2.5 bn and EUR 3 bn).

Total interest recognised in the income statement for 2023 was negative for EUR -409.0 mln compared to EUR +131 mln in positive accruals as at 31 December 2022. The different contribution depends on the combined effect of the increase in interest rates and the elimination of the advantageous remuneration mechanisms described above.



Tax credits linked to the “Rilancio” Italian Law Decree acquired following assignment by the direct beneficiaries or previous purchasers

The Italian Law Decrees no. 18/2020 (so-called “Cura Italia”) and no. 34/2020 (so-called “Rilancio”) introduced into the Italian legal system incentive tax measures connected with both investment expenses (e.g. eco and sismabonus) and current expenses (e.g. rents of premises for non-residential use). The Government has also intervened on the matter again through Italian Law Decree no. 50/2022 (so-called “Aiuti”) mainly by redefining the pool of potential transferees.

These tax incentives apply to households or businesses, are commensurate with a percentage of the expenditure incurred (in some cases up to 110%) and are disbursed in the form of tax credits or tax deductions (optionally convertible into tax credits). The main characteristics of these tax credits are: (i) the possibility of using them in offsetting; (ii) transferability to third-party purchasers and (iii) non-reimbursement by the tax authorities.

The accounting treatment of tax credits acquired from a third party (transferee of the tax credit) is not subject to a specific international accounting standard. IAS 8 establishes that, when there is a situation not explicitly addressed in an IAS/IFRS, the company management defines an appropriate accounting policy to ensure relevant and reliable disclosure of such transactions.

The Group, in line with the joint document issued by the Authorities³⁶, has defined its accounting policy which refers to the accounting rules laid out in IFRS 9, applying provisions compatible with the characteristics of the transaction and considering that, substantially, these credits are equivalent to financial assets.

The Group purchases the credits based on its Tax Capacity with a view to holding them and using them for future offsetting; therefore, these credits are linked to a Held to Collect Business Model and recognised at amortised cost, with remuneration represented in net interest income throughout the recovery time period.

The valuation of these credits is carried out by considering utilisation flows through estimated future offsetting; however, the accounting framework provided by IFRS 9 does not apply to this specific case for the calculation of expected losses, i.e. the expected credit loss (ECL) is not calculated as there is no counterparty credit risk, taking into account that tax credits are realised through offsetting and not collection.

Lastly, as specified in the joint Authority document, taking into account that for the purposes of the international accounting standards these tax credits do not represent tax assets, public contributions, intangible assets or financial assets, the most appropriate classification for representation in the financial statements is the residual category “Other Assets” in the Balance Sheet.

As at 31 December 2023, the nominal value of the total tax credits acquired amounted to EUR 2,279.4 mln. Taking into account credits offset until this point, totalling EUR 441.8 mln, the residual nominal amount as at 31 December 2023 came to EUR 1,837.6 mln. The corresponding carrying amount, recognised in the balance sheet item “130. Other assets” at amortised cost, which takes into account the acquisition price and the net amounts accrued as at 31 December 2023, was EUR 1,660.3 mln.

It should also be noted that, as at 31 December 2023, the Parent Company had received requests for the sale of these receivables for a total of approximately EUR 1.5 bn, currently being assessed/processed.

The total amount of receivables purchased, taking into account the transfer requests in progress - the latter suitably adjusted to factor in the impact of cases abandoned and/or rejected by the Bank - is in line with the estimate of the total tax capacity or the tax/contribution payments that the Group plans to make and that are available for offsetting with the tax credits from “Building Bonuses”.

Early retirement incentive plans

Termination of employment may be attained through the employee’s voluntary acceptance of a company plan to reduce staff following a proposal to incentivise voluntary resignations due to redundancies, i.e. in the case of exit incentive plans.

These plans provide employment termination benefits and are drawn up, in terms of the number of exits and the timing of implementation, within the scope of the Business Plan objectives.

The agreements executed between the Group and the trade unions generally provide for the extent of the pool of potential participants and payments made on a lump-sum basis, in addition to the additional payment of other

³⁶ Accounting treatment of tax credits purchased pursuant to the “Cura Italia” and “Rilancio” Italian Law Decrees published on 5 January 2021 by the coordination table between the Bank of Italy, Consob and IVASS on the application of IAS/ IFRS



benefits such as, for example, the maintenance of the insurance policy, the maintenance of welfare coverage and supplementary pension schemes, until the employee's reaches the INPS retirement age.

The Group recognises a provision by type, under personnel expenses, as a balancing entry to a provision for risks and charges under item "100 Provisions for risks and charges: c) other provisions for risks and charges" when the requirements of IAS 37 are met, i.e. in the presence of an obligation of a contractual nature to provide the services and benefits covered by the agreement, when it is probable that a flow of resources will be required to fulfil the obligation, for an amount that represents the best possible estimate of the expenditure needed to settle the related obligation in place at the reporting date. Since this is a multi-year obligation, the estimated amount is subject to discounting to reflect the effect of the passing of time (IAS 37.45).

When the uncertainty mainly related to the amount of the redundancy incentive cost is resolved, the Group recognises a liability as a balancing entry to the Provision for risks and charges.

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 or 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 financial years, reasons for sales, and expectations regarding future sales;
- Held to Collect and Sell (HTCS): 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 does not take place on the basis of scenarios that, based on the entity's reasonable forecasts, are not likely to occur, such as "worst case" or "stress case" scenarios. For example, if the entity expects to sell a given portfolio of financial assets only in a "stress case" scenario, that scenario does not affect the assessment of the entity's Business Model for those assets if that scenario, based on the entity's reasonable forecasts, is not likely to occur.



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

In summary, the Business Model:

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

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

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

More specifically, as part of an HTC Business Model, sales are permitted i) in the event of an increase in credit risk, ii) when carried out near maturity, and finally, iii) when they are frequent but not significant in terms of value or infrequent, even if their value is significant.

A description of the circumstances on the occurrence of which the Group deems admissible to implement sale transactions of the assets in question is given below.

Increase of the credit risk

The Group deems that there is an increase in credit risk when events occur that involve:

- the classification of the financial asset under stage 2, previously classified under stage 1;
- the classification of the financial asset under impaired assets (or stage 3), previously classified under stages 1 or 2.

On the occurrence of these cases, sales are admissible, independently of any frequency or significance threshold; this occurs, for example, in the case of transfers of non-performing loans.

Proximity of the instrument's expiry

The Group deems that, independently from any frequency or significance threshold, transfers are compatible with the HTC Business Model if the time interval before the expiry is 10% of the original duration of the instrument, with a maximum absolute limit of 12 months.

Frequency and significance lower than determined thresholds

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

The two thresholds must be considered in a separate manner; it derives that individual sales made for an amount higher than 5% compared to initial amount, even if infrequent, are not admissible. In the case 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 this case, the significance threshold of the aggregate amount of sales identified by the Group is 10%.

These thresholds were established and applied at the level of both the individual legal entity belonging to the Group and the Group itself and only for the debt securities portfolio, as the sales of loans portfolios made by the Group are attributable to an increase in the credit risk and to the strategy of derisking required by the Supervisory Authority.

*“Held to Collect” Business Model – Sales*

The IFRS 9 accounting standard indicates that the transfer of exposures included in the portfolio of “Financial assets measured at amortised cost” is carried out in accordance with specific significance or frequency thresholds, in proximity of maturity, in presence of an increase in credit risk or the occurrence of exceptional circumstances. With regard to this it should be noted that transfers of debt securities made by the Group in 2023 took place for a total nominal value of approximately EUR 408.5 mln in compliance with the significance and frequency thresholds, declared in the Group’s accounting policies, illustrated in part “A.2 Part relating to the main items of the financial statements”, paragraph “Other Information, Other Aspects - Business Model”, to which reference is made for further details.

During 2023 and until the date of preparation of these financial statements there were no changes with regard to the admissibility criteria of sales of financial assets managed with the “HTC” Business Model. Lastly, please note that the management of debt securities classified in “HTC” and “HTCS” portfolios continues in accordance with the choices made in previous financial years; therefore, no change in the Business Model has occurred during the financial year which required a reclassification of the securities portfolio.

SPPI test

The other criterion to be used to determine whether a financial asset should be classified under financial instruments measured at amortised cost or at FVOCI - in addition to the Business Model analysis shown above - envisages that the related cash flows are represented exclusively by the payment of the principal and interest on the amount of principal to be repaid. To this end, IFRS 9 regulates that the SPPI 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 mandatorily measured at fair value”.

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

- the principal is intended as the fair value of the financial asset at the time of its initial recognition. This value may change during the life of the financial instrument, for example due to repayments of a portion of the principal;
- 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 the contractual terms introduce exposure to risk or volatility of contractual cash flows that is inconsistent with the definition of a basic lending arrangement, such as exposure to changes in equity or commodity prices, the contractual flows do not meet the definition of SPPI.

In cases where the time value of money is modified – for example when the interest rate of the asset is periodically restated, but the frequency of this restatement or the frequency of the payment does not correspond to the nature of the interest rate (for example, the interest rate is revised monthly on the basis of a one-year rate) or when the interest rate is periodically re-determined on the basis of an average of particular short or medium-long term rates – it must be assessed, both using quantitative and qualitative elements, if the contractual flows still meet the definition of SPPI (so-called benchmark cash flows test). If the test shows that the contractual cash flows (not discounted) are “significantly different” from the cash flows (also not discounted) of a benchmark instrument (i.e. without the modified time value element) the cash flows contractual agreements cannot be considered as meeting the definition of SPPI.

Particular analyses (so-called “look through tests”) are required by the standard and are consequently carried out also for multiple contractually linked instruments (“contractually linked instruments” - CLI) that create concentrations of credit risk for debt relief and for non-recourse assets, for example in cases where the receivable can be asserted only in relation to certain assets of the debtor or the cash flows deriving from certain assets.

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

However, as required by IFRS 9, a contractual cash flow characteristic does not affect the classification of the financial asset if it can only have a de minimis effect on the contractual cash flows of the financial asset (in each



financial 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.

For purposes of conducting the SPPI test on transactions in debt securities, MPS Group 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 carried out for each new credit line/relationship submitted to the decision-making body through the use of the 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. The trees are used both for the implementation of the rules of the proprietary tool and for the verification and validation of the methodology adopted by the info-providers.



Adoption of the accounting standards “IFRS 17 Insurance Contracts” and “IFRS 9 Financial Instruments” in the companies AXA MPS Assicurazioni Vita and AXA MPS Assicurazioni Danni

IFRS 17 - Insurance contracts.

The standard IFRS 17 “Insurance contracts”, applicable from 1 January 2023, introduced new measurement criteria and new accounting rules for insurance contracts, replacing IFRS 4. The main changes are:

- introduction of a new measure for the valuation and representation of groups of insurance contracts: insurance contracts that share similar risks and are managed jointly and that belong to the same generation (annual cohort), with the exception of the option granted, are aggregated at the time of the endorsement of the standard for life contracts characterised by intergenerational pooling;
- requirement of three different measurement models for the valuation of technical liabilities:
 - o *Building Block Approach* (BBA) or *General Measurement Model* (GMM), a general measurement model for insurance contracts;
 - o *Variable Fee Approach* (VFA), a measurement model to be applied mandatorily for insurance contracts with a direct participation feature;
 - o *Premium Allocation Approach* (PAA), a simplified and optional measurement model used mainly for short-term contracts;
- measurement of insurance liabilities on the basis of values that are market consistent: insurance liabilities are measured on the basis of current values weighted by the probability of occurrence and discounted to take into account the time value of money, the characteristics of the cash flows and the liquidity characteristics of the insurance contracts (Present Value of Free Cash Flows-PVFCF);
- introduction of an explicit measure of the adjustment for non-financial risks: the Risk Adjustment (RA) must be recognised within the insurance liability separately and represents the economic compensation that the company requires to bear the uncertainty of future cash flows in terms of amount and timing;
- representation of the expected profit implicit in insurance contracts: the so-called “Contractual Service Margin” (CSM), i.e. that differential component of expected profit that the company must suspend as an insurance liability and subsequently recognise in the income statement, consistent with the provision of the insurance service over the life of the group of insurance contracts. If, at the time of initial recognition or subsequent measurement, the group of contracts is found to be onerous, recognition of the loss in the income statement is required.

In order to reflect the measurement of the liability at current values, the components of the insurance liability are updated at each reporting date and the related changes are recognised according to the nature and accounting options chosen by the company. In particular, the changes relating to the provision of past and current services are recognised in the Income Statement, on the contrary, the changes relating to the provision of future services are recorded as an adjustment of the Contractual Service Margin. Finally, changes in the effect of the time value of money and financial risks are reflected in the income statement or the statement of comprehensive income, depending on the accounting choice adopted by the company.

With the transition date to the standard set for 1 January 2022, the accounting standard IFRS 17 requires all contracts in the portfolio to be accounted for as if the rules introduced had always been in force, with retroactive application of the standard; this transition method is called *Full Retrospective Approach* (“FRA”). Considering the complexity of this approach, two additional methods have been envisaged that are optional:

- the *Modified Retrospective Approach* (“MRA”), which approximates the results obtained from the full retrospective application, providing for some simplifications;
- the *Fair Value Approach* (“FVA”), according to which the Contractual Service Margin is calculated as the difference between the fair value of the group of contracts to which it refers and the value of the Fulfilment Cash Flows at the same date (represented by the sum of the Present Value of Cash Flows and Risk Adjustment).

Main methodological choices adopted by the Companies AXA MPS Assicurazioni Vita and AXA MPS Assicurazioni Danni

Within the insurance companies AXA MPS Assicurazioni Vita and AXA MPS Assicurazioni Danni (hereafter also Life Company and Non-Life Company respectively), the standard is applicable to insurance contracts and to contracts defined by the standard as contracts with direct participation clauses. With regard to the Life insurance company, the contracts linked to the segregated funds, the unit-linked contracts with significant insurance risk and



the multi-class contracts qualify as direct participation contracts and are mandatorily measured with the Variable Fee Approach method.

The Life company also applies the derogation from the application of the “annual cohort” criterion envisaged by the endorsement process of the aforementioned standard, for direct participation contracts valued according to the Variable Fee Approach, characterised by mutuality between the cash flows of the different generations of the insured.

Pure risk contracts are measured using the general measurement method, the Building Block Approach.

With regard to the Non-life company, the contracts issued with an annual duration and the reinsurance contracts are eligible for measurement of the application of the simplified approach, the Premium Allocation Approach. Multi-year contracts, relating to the insurance business linked to mortgages and personal loans, are instead measured using the general measurement method, i.e. the Building Block Approach.

IFRS 9 – Financial instruments

The insurance companies have defined the criteria for the classification and measurement of financial instruments in the portfolio and for the assessment of expected credit loss, listed below. In detail, for the business models, the following were identified:

- “Held to Collect and Sell” mainly in portfolios associated with segregated funds and in the free portfolio;
- “Other” for portfolios associated with linked products and open pension funds.

In addition, a suitable process was structured to assess the contractual characteristics of financial instruments in the portfolio, for SPPI testing purposes. In general, there were no significant changes with respect to the classification of financial instruments already in place under IAS 39, net of those mandatorily required by the new standard.

More specifically:

- debt securities classified as available for sale and under the Held to Collect and Sell business model that pass the SPPI test are measured at fair value through the statement of comprehensive income;
- debt securities classified as available for sale and under the Held to Collect and Sell business model that fail the SPPI test are measured at fair value through profit or loss;
- debt securities classified under Loans and Receivables that pass the SPPI tests are measured at amortised cost;
- investment funds (open and closed) are mandatorily measured at fair value through profit or loss;
- for equities, the irrevocable option was exercised for designation at fair value through the statement of comprehensive income (without recycling in the income statement).

The debt securities that failed the SPPI test were immaterial.

With regard to financial liabilities, there were no changes to the current classification and measurement methods pursuant to IAS 39.

With regard to Expected Credit Loss, a process has been structured to assess the risk of expected loss in relation to debt instruments measured at fair value with recognition in shareholders’ equity and at amortised cost. For the purpose of this measurement, the entire contractual period of the related financial instrument is considered and the expected loss value is obtained by multiplying the probability of default risk (PD) by the estimated loss given default (LGD) by the exposure at default (EAD).

At each reporting date, the expected loss initially recognised is remeasured to incorporate any increases in credit risk associated with the financial instrument. All instruments are allocated to “stages” on the basis of the associated credit risk and any “stage” transfers are assessed at each reporting date. The stage allocation approach envisaged for insurance companies is based on the rating and consists of two phases: a quantitative phase, to verify the rating downgrade and a qualitative phase, to verify deterioration of the credit risk or actual insolvency.

With regard to Hedge Accounting, based on the option granted by IFRS 9 to maintain IAS 39 rules, hedging transactions continue to be managed in compliance with IAS 39.

IFRS 17 and IFRS 9 interaction

IFRS 17 allows the application of certain specific accounting policies, at insurance contract portfolio level, in order to mitigate any accounting mismatches that could arise between the accounting methods for financial assets and



for insurance contracts. For both companies, the option of disaggregating insurance and reinsurance financial charges between the Income Statement and the Statement of comprehensive income was adopted.

As regards the claims provisions of the Non-Life Business and the contracts valued according to the Building Block Approach, the capitalisation of interest in the income statement is based on “locked-in” discount rates (recognised at the time of initial recognition) and the difference between the valuation at current values and the “locked-in” rates is shown in the statement of comprehensive income. Consistently, most of the debt instruments held are accounted for at fair value with the related changes recognised in the statement of comprehensive income.

With regard to contracts with direct participation clauses, measured according to the Variable Fee Approach, the chosen accounting option of disaggregating insurance financial expenses between the Income Statement and the Statement of comprehensive income, makes it possible to align and balance the effects of the change in the financial liability with the financial result of the underlying assets (with the exception of securities measured at amortised cost).

Note that, for the Life company, the IFRS 17 measurement using the *Variable Fee Approach* replaces the shadow accounting envisaged by IFRS 4, as both the insurance liabilities and the underlying investments to cover the liabilities are measured at current values and therefore any changes in the fair value of underlying investments to cover the liabilities will be reflected in the Contractual Service Margin measurement.

Impacts recognised by AXA MPS Assicurazioni Vita and AXA MPS Assicurazioni Danni on the first-time application of IFRS 17 and IFRS 9

Depending on the availability of the historical data required to determine the Contractual Service Margin at the transition date, all three approaches laid down in the standard and described above were used.

In detail, for the long-term contracts of the Non-Life company, the full retrospective approach was applied for the most recent generations, conversely, for the 2018 and previous generations, the fair value method was applied.

For the Life company, the pure risk contracts were measured with the modified retrospective approach, the contracts with direct participation clauses were measured mainly with the fair value approach.

The effects, as at 1 January 2022, of the application of IFRS 17 and IFRS 9 on the total shareholders' equity of the companies are shown below:

- for AXA MPS Assicurazioni Vita, there was a decrease in shareholders' equity of EUR 638.4 mln due to the different measurement of IFRS 17 technical provisions compared to IFRS 4 provisions, the main driver of which is represented by recognition of the CSM for EUR 533.7 mln. In addition, it should be noted that a specific OCI reserve is recognised in shareholders' equity, which replaces the previous “Shadow Accounting”, without which the impacts on shareholders' equity would have been lower;
- for AXA MPS Assicurazioni Danni, there was an increase in shareholders' equity for a total of EUR 9.8 mln, mainly linked to the reduction in the IFRS 17 claims liabilities compared to the IFRS 4 claims liabilities due to i) the prudential adjustment implicit in the IFRS 4 claims liabilities, ii) recognition of the IFRS 17 Risk Adjustment, and iii) the discounting of reserves. The measurement of business lines using the general Building Block Approach (BBA) measurement method, led to the recognition of a CSM of EUR 58.2 mln.

With reference to the effects recorded in 2022, the retroactive application of the new IFRS 17 and IFRS 9 standards entailed a different recognition of the effects for the period compared to that recognised under the previous criteria. More specifically, the market performance and in particular the increase in interest rates in 2022 resulted in significant losses on financial assets measured at fair value which, pursuant to the previous IFRS 4, were only partially recognised in the measurement of technical provisions (Shadow Accounting). The new logic introduced by IFRS 17 for measuring insurance liabilities allowed greater offsetting of losses recorded on underlying investments, through almost full recognition of the related change to the insurance liabilities, mitigating the negative effects on shareholders' equity recorded pursuant to IFRS 4. Consequently, the effect on shareholders' equity was positive in 2022. As at 31 December 2022, therefore, the effects of application of the new standard compared to the application of IFRS 4 resulted for:

- AXA MPS Assicurazioni Vita, in an increase in shareholders' equity of EUR 80.2 mln mainly due to i) the result and application of the OCI Option on reserves and ii) higher profits of EUR 64.0 mln due mainly to release of the CSM;
- AXA MPS Assicurazioni Danni, in an increase in shareholders' equity of EUR 40.6 mln mainly linked to the effect of discounting provisions partially reduced by the lower profits for EUR 11.2 mln, the latter mainly linked to the different measurement of the claims provision that mostly contributed to the IFRS 4 result as a positive disaggregation of reserves from previous years.



Economic and financial impacts for the MPS Group

The cumulative effect of the first-time application of IFRS 17 and IFRS 9 (impact from 1 January 2022 and delta on the 2022 income statement) was accounted for by AXA MPS Assicurazioni Danni S.p.A. and AXA MPS Assicurazioni Vita S.p.A. from 1 January 2023 as a balancing entry to a specific profit reserve (also known as “First time adoption” reserve).

The two insurance investee companies are consolidated in the financial statements of MPS Group using the synthetic equity method. Therefore, the first-time application of both standards had an impact on the Group’s shareholders’ equity from 1 January 2023 of EUR 62.4 mln, broken down as follows:

- AXA MPS Assicurazioni Vita: EUR 42.1 mln recognised respectively in the item “Reserves” for EUR - 150.2 mln and in the item “Valuation reserves” for EUR 192.3 mln;
- AXA MPS Assicurazioni Danni: EUR 20.3 mln recognised respectively in the item “Reserves” for EUR 3.8 mln and in the item “Valuation reserves” for EUR 16.5 mln.



The following tables provide a reconciliation of the balance sheet balances as at 1 January 2022 and 31 December 2022 of the MPS Group following the effective retroactive application of IFRS 17 and IFRS 9 by the insurance associates. The changes shown in the first table are the effects on the opening balances of the latest financial year for which comparative information is restated in accordance with IAS 8. Changes to the income statement for the year ended 31 December 2022 are also disclosed.

Assets	01 01 2022	Change	01 01 2022 Restated
10. Cash and cash equivalents	1,741,766	-	1,741,766
20. Financial assets measured at fair value through profit or loss	9,670,985	-	9,670,985
a) financial assets held for trading	9,216,960	-	9,216,960
c) other financial assets mandatorily measured at fair value	454,025	-	454,025
30. Financial assets measured at fair value through other comprehensive income	5,460,669	-	5,460,669
40. Financial assets measured at amortised cost	113,060,139	-	113,060,139
a) Loans to banks	25,004,413	-	25,004,413
b) Loans to customers	88,055,726	-	88,055,726
50. Hedging derivatives	5,567	-	5,567
60. Change in value of macro-hedged financial assets (+/-)	594,455	-	594,455
70. Equity investments	1,095,412	(312,312)	783,100
90. Property, plant and equipment	2,490,131		2,490,131
100. Intangible assets	185,229	-	185,229
- of which goodwill	7,900	-	7,900
110. Tax assets	1,773,960	-	1,773,960
a) current	727,568	-	727,568
b) deferred	1,046,392	-	1,046,392
120. Non-current assets held for sale and disposal groups	72,883	-	72,883
130. Other assets	1,717,365	-	1,717,365
Total assets	137,868,561	(312,312)	137,556,249



Liabilities and Shareholders' Equity		01 01 2022	Change	01 01 2022 Restated
10.	Financial liabilities measured at amortised cost	121,466,202		121,466,202
	a) due to banks	31,279,861		31,279,861
	b) due to customers	79,478,803		79,478,803
	c) debts securities issued	10,707,538		10,707,538
20.	Financial liabilities held for trading	4,531,060		4,531,060
30.	Financial liabilities designated at fair value	113,989		113,989
40.	Hedging derivatives	1,259,140		1,259,140
50.	Change in value of macro-hedged financial liabilities (+/-)	15,875		15,875
60.	Tax liabilities	7,054		7,054
	a) current	14		14
	b) deferred	7,040		7,040
80.	Other liabilities	2,487,179		2,487,179
90.	Provision for employees severance pay	159,331		159,331
100.	Provision for risks and charges:	1,654,733		1,654,733
	a) financial guarantees and other commitments	143,994		143,994
	b) post-employment benefits	29,732		29,732
	c) other provisions	1,481,007		1,481,007
120.	Valuation reserves	306,771	(145,521)	161,250
150.	Reserves	(3,638,638)	(166,791)	(3,805,429)
170.	Share capital	9,195,012		9,195,012
190.	Non-controlling interests (+/-)	1,346		1,346
200.	Profit (loss) for the year (+/-)	309,507		309,507
Total Liabilities and Shareholders' Equity		137,868,561	(312,312)	137,556,249



Assets	31 12 2022	Change	31 12 2022 Restated
10. Cash and cash equivalents	12,538,578		12,538,578
20. Financial assets measured at fair value through profit or loss	6,756,687		6,756,687
a) financial assets held for trading	6,299,394		6,299,394
c) other financial assets mandatorily measured at fair value	457,293		457,293
30. Financial assets measured at fair value through other comprehensive income	4,352,328		4,352,328
40. Financial assets measured at amortised cost	88,464,613		88,464,613
a) Loans to banks	3,255,657		3,255,657
b) Loans to customers	85,208,956		85,208,956
50. Hedging derivatives	1,077,095		1,077,095
60. Change in value of macro-hedged financial assets (+/-)	(908,737)		(908,737)
70. Equity investments	688,292	62,387	750,679
90. Property, plant and equipment	2,375,926		2,375,926
100. Intangible assets	162,649		162,649
- of which goodwill	7,900		7,900
110. Tax assets	2,216,377	-	2,216,377
a) current	718,247		718,247
b) deferred	1,498,130		1,498,130
120. Non-current assets held for sale and disposal groups	65,497		65,497
130. Other assets	2,383,613		2,383,613
Total assets	120,172,918	62,387	120,235,305



Liabilities and Shareholders' Equity		31 12 2022	Change	31 12 2022 Restated
10.	Financial liabilities measured at amortised cost	103,283,390		103,283,390
	a) due to banks	21,382,759		21,382,759
	b) due to customers	73,349,626		73,349,626
	c) debts securities issued	8,551,005		8,551,005
20.	Financial liabilities held for trading	3,988,517		3,988,517
30.	Financial liabilities designated at fair value	97,027		97,027
40.	Hedging derivatives	301,568		301,568
50.	Change in value of macro-hedged financial liabilities (+/-)	(77,363)		(77,363)
60.	Tax liabilities	6,634		6,634
	a) current	16		16
	b) deferred	6,618		6,618
80.	Other liabilities	3,188,903		3,188,903
90.	Provision for employees severance pay	70,210		70,210
100.	Provision for risks and charges:	1,515,489		1,515,489
	a) financial guarantees and other commitments	142,474		142,474
	b) post-employment benefits	26,592		26,592
	c) other provisions	1,346,423		1,346,423
120.	Valuation reserves	(235,747)	208,757	(26,990)
150.	Reserves	784,603	(172,709)	611,894
170.	Share capital	7,453,451		7,453,451
190.	Non-controlling interests (+/-)	936		936
200.	Profit (loss) for the year (+/-)	(204,700)	26,339	(178,361)
Total Liabilities and Shareholders' Equity		120,172,918	62,387	120,235,305



Items	31 12 2022	Change	31 12 2022 Restated
10. Interest income and similar revenues	2,149,721		2,149,721
<i>of which interest income calculated applying the effective interest rate method</i>	<i>1,863,741</i>		<i>1,863,741</i>
20. Interest expense and similar charges	614,485		614,485
30. Net interest income	1,535,236		1,535,236
40. Fee and commission income	1,584,991		1,584,991
50. Fee and commission expense	227,013		227,013
60. Net fee and commission income	1,357,978		1,357,978
70. Dividends and similar income	26,347		26,347
80. Net profit (loss) from trading	(23,749)		(23,749)
90. Net profit (loss) from hedging	6,177		6,177
100. Gains/(losses) on disposal/repurchase of:	52,082		52,082
a) financial assets measured at amortised cost	50,834		50,834
b) Financial assets measured at fair value through other comprehensive income	1,236		1,236
c) financial liabilities	12		12
110. Net profit (loss) from financial assets and liabilities measured at fair value through profit or loss	50,081		50,081
a) financial assets and liabilities designated at fair value	31,650		31,650
b) other financial assets mandatorily measured at fair value	18,430		18,430
120. Net interest and other banking income	3,004,151		3,004,151
130. Net impairment (losses)/reversals for credit risk on	430,489		430,489
a) financial assets measured at amortised cost	430,286		430,286
b) financial assets measured at fair value through other comprehensive income	202		202
140. Modification gains/(losses)	4,335		4,335
150. Net income from banking activities	2,577,998		2,577,998
190. Administrative expenses:	3,293,654		3,293,654
a) personnel expenses	2,321,832		2,321,832
b) other administrative expenses	971,822		971,822
200. Net provision for risks and charges:	(6,655)		(6,655)
a) commitments and guarantees issued	2,031		2,031
b) other net provisions	(8,686)		(8,686)
210. Net adjustments to/recoveries on property, plant and equipment	118,885		118,885
220. Net adjustments to/recoveries on intangible assets	68,586		68,586
230. Other operating expenses/income	227,554		227,554
240. Operating expenses	3,246,916		3,246,916
250. Gains (losses) on investments	67,722	26,339	94,061
260. Net gains (losses) on property, plant and equipment and intangible assets measured at fair value	(31,111)		(31,111)
280. Gains (losses) on disposal of investments	838		838
290. Profit (loss) before tax from continuing operations	(631,467)	26,339	(605,128)
300. Tax (expense)/recovery on income from continuing operations	(426,620)		(426,620)
310 Profit (loss) after tax from continuing operations	(204,848)	26,339	(178,509)
320. Profit (loss) after tax from discontinued operations	-		-
330. Profit (loss) for the year	(204,848)	26,339	(178,509)
340. Net Profit (loss) attributable to non-controlling interests	(148)		(148)
350. Parent company's net profit (loss) for the year	(204,700)	26,339	(178,361)



Use of estimates and assumptions when preparing financial statements

The application of certain accounting standards necessarily implies the use of estimates and assumptions that impact the values of the assets and liabilities recognised in the financial statements as well as the disclosure provided on contingent assets and liabilities. The assumptions underlying the estimates developed take into consideration all available information at the date on which these consolidated financial statements were drafted as well as the assumptions considered reasonable, also in light of historical experience. By their very nature, it is therefore not possible to exclude that the assumptions used, albeit reasonable, may not be confirmed in the future scenarios in which the Group will be operating. The results achieved in the future therefore could differ from the estimates developed in order to draft these consolidated financial statements and as a result adjustments may be required, to an extent that cannot currently be predicted or estimated, with respect to the carrying amount of the assets and liabilities recognised in the financial statements.

In this regard, please note that estimates could need to be revised following changes in the circumstances on which they were based, the availability of new information or the increased experience gained. Among the main factors of uncertainty that could affect the future scenarios in which the Group will operate, climate and environmental risks must not be underestimated, given the uncertainty that inevitably characterises the forecasts of events that, by nature, could occur over a long-term time horizon, as well as the effects on the global and Italian economies connected to ongoing geopolitical tensions such as the conflicts between Russia and Ukraine and the conflict in the Middle East, which determine significant uncertainties on the Eurozone's economic forecasts, to be taken as the basis for budget estimates.

Lastly, please note that in order to allow an appreciation of the effects on the financial statements correlated to above mentioned elements of uncertainty, in these consolidated financial statements, for the main items of the financial statements subject to estimates (recoverability of deferred tax assets, expected losses on performing loans, recoverability of intangible assets with an indefinite useful life) information is provided on the main hypotheses and assumptions used in the estimate, as well as a sensitivity analysis with respect to alternative hypotheses.

The accounting policies considered to be the most critical for the purpose of a true and correct representation of the Group's financial situation and results of operations, both in terms of materiality of the values to be recorded in the Financial Statements impacted by these policies, and for the high degree of judgement inherent in the measurements, which implies the use of estimates and assumptions by management, with reference to the specific sections of the Notes to the financial statements for detailed information on the evaluation processes carried out at 31 December 2023. In the following review of relevant accounting policies, the main factors of uncertainty related to the Russia-Ukraine conflict, that could affect the financial statement valuations, are also reported, which are more fully disclosed in the following section "Risks, Uncertainties and Impacts of the Russia-Ukraine Conflict".

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

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

For some of the cases listed above, the main factors that are subject to estimates by the Group, 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;
 - o 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 Group, future cash flows for the forecast period and cash flows used to determine the terminal value generated by the CGUs are estimated separately and are appropriately discounted. The cost of capital is included in the estimates;
 - c) for calculating the fair value of financial instruments not listed on active markets, if it is necessary to use parameters that cannot be inferred from the market, the main estimates concern, on one hand, the development of future cash flows (or also profits for equity securities), possibly contingent upon future events and, on the other, the level of certain input parameters not listed on active markets;
 - d) for quantifying post-employment benefits, the present value of the obligations is estimated, taking into account the cash flows, appropriately discounted, resulting from the historical statistical analysis and the demographic curve;
 - e) for quantifying provisions for risks and charges, the amount of disbursements necessary to satisfy the obligations is estimated, where possible, taking into account the effective probability of having to make use of resources;
 - f) for calculating the items related to deferred taxation, the probability that taxes will effectively be incurred in the future (temporary taxable differences) and the degree of reasonable certainty - if any - of future taxable profits at the time the taxes can be deducted is estimated (temporary deductible differences);
 - g) for the determination of the fair value of the properties, carried out through the preparation of specific appraisals by a qualified and independent company, certain unobservable input data are estimated, such as, for example, the discount rate, the capitalization rate of income, etc.

For points a), b) and f), please refer to the subsequent paragraphs: “Methods for calculating impairment on IFRS 9 financial instruments”, “Methods for calculating impairment on equity investments”, “Methods for calculating impairment on other non-financial assets” and “Methods for recognising deferred tax assets (probability test)”; for point g) refer to the paragraph “Determination of the fair value of property” and finally for point c) to the contents of paragraph A.4.5 “Fair Value Hierarchy” of these Notes to the financial statements. The actual technical and conceptual solutions used by the Group are analysed in more detail in the individual sections of the notes to the balance sheet and income statement, where the distinct contents of each item in the financial statements are described. With regard to the cases referred to in points d) and e), please refer to Section 10.5 under liabilities in the Notes to the Financial Statements “Defined benefit company pension funds” and Part E of the Notes to the Financial Statements, Section 1.5 “Operational risks”.

Methods for calculating impairment on IFRS 9 financial instruments

Pursuant to IFRS 9, at each reporting date, financial assets other than those measured at fair value through profit or 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 or 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.

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 expected loss over the remaining life of the instrument (lifetime);



- stage 3: includes all non-performing loans, i.e. non-performing exposures that present objective evidence of deterioration and which must be adjusted by using the lifetime expected loss concept.³⁷

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

The scope of exposures classified in stage 3 includes the corresponding non-performing exposures, in accordance with the provisions of the Bank of Italy rules, defined in Circular no. 272 of 30 July 2008, as updated, and referred to in Bank of Italy Circular no. 262 "Bank financial statements: compilation formats and rules", to the non-performing exposures aggregate pursuant to ITS EBA (EBA/ITS/2013/03/rev1 24/7/2014)³⁸.

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 non-performing 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 debtor may default (e.g., a crisis in the debtor's business sector);
- Past due and/or overdrawn exposures: on-balance sheet exposures, other than those classified as bad loans 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 MPS Group, non-performing past due and/or overdrawn exposures are determined in reference to the position of an individual debtor.

In addition, the Bank of Italy regulations, in line with EBA standards, have introduced the definition of "forborne exposures". This concerns, in particular, exposures benefiting from tolerance measures, which consist of concessions granted to the debtor, 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 debtor's ability to fulfil the contractual commitments originally assumed, and that would not have been granted to another debtor 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 debtors classified either in the performing or the non-performing (impaired) status. For exposures with forbearance measures classified as unlikely to pay, the recovery to a position of performing can only take place after at least one year has elapsed from the time the concession was granted (known as the "cure period") and all the other conditions provided for in paragraph 157 of the EBA ITS are satisfied.

In any case, renegotiated exposures should not be considered forborne when the debtor 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:

- when these indicators are present, the financial asset is included in 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

³⁷The valuation is statistical for positions with a balance of under EUR 1.0 mln and analytical, carried out by management, for positions above said threshold.

³⁸The regulatory framework of the New Definition of Default was supplemented with the application, starting from 1 January 2021, of the "Guidelines on the application of the definition of default as per Article 178 of EU Regulation no. 575/2013" (EBA/GL/2016/07).



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 these indicators are not present, the financial asset is included in stage 1. In this case, the assessment requires that expected losses are recognised on the specific 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 by MPS Group, are the following:

- relative quantitative criterion as “main” driver, based on the change (beyond established thresholds) in the lifetime probability of default compared to when the financial instrument was initially recognised in the financial statements;
- 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 of counterparties classified in the Proactive Management portfolio characterised by high risk elements;³⁹
 - o exposures past due by more than 30 days;
- *backstop indicators, i.e., credit delinquency* factors, which suggest that there has been a significant increase in credit risk, unless there is evidence to the contrary. For purposes of assumptions, MPS Group 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 for the purposes of classification under non-performing exposures.

With particular reference to the relative quantitative criterion applicable to credit exposures with customers, the MPS Group has determined as a reference the change, within internal thresholds differentiated by segment, product, initial rating class, vintage and geographical area, 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. The exceeding of the above mentioned thresholds represents an expression of significant increase in the credit risk and the subsequent transfer of a single credit line from stage 1 to stage 2. The comparison is based on the homogeneous residual durations and on homogeneous PD models, for example, if the definition of default changes over time, the original lifetime forward-looking cumulative PD is recalculated to take account of said new definition of default.⁴⁰ Cumulative PDs subject to comparison are based on the same model used for ECL purposes (e.g. definition of PIT (Point in Time) PD, macroeconomic scenarios, expected life/contractual life). In order to obtain a unique classification result, use is made of a cumulative PD resulting from the weighted average of the cumulative PDs calculated for the individual prospective scenarios using the probabilities of the scenarios as weights. The threshold of significance is determined by historically measuring, through quantile regression analysis per cluster, that level of ratio, between the lifetime forward-looking cumulative PD at the reporting date and that at the origination date, which may be considered predictive of the classification as NPE.⁴¹ The threshold is determined so as to minimise false positives and false negatives and maximise true positives and true negatives.

In cases where it is difficult to identify risk factors or indicators at the level of individual borrowers, the significant increase in credit risk may be assessed by means of a collective approach that allows the components of the loan portfolio that are most likely to be affected by a crisis to be highlighted without, however, identifying them on an individual basis.

For debt securities that do not have rating equal to or above investment-grade ratings, the relative quantitative criterion is based on the variation in lifetime forward-looking cumulative PD between the reporting date and the

³⁹ On the basis of internal policies, the macro-factors that determine the assignment of the “Proactive Management” management category are the internal rating class (below the D1 threshold) or the “activation” of default detection parameters of the early warning systems classified as highly relevant or binding, which include the EBITDA; these parameters pertain to areas of investigation relating to prejudicial, performance, centralised risks, Financial Statements and the forbearance state in loans.

⁴⁰ The assessment at 31/12/T of the significant increase in credit risk of a 30y mortgage loan disbursed on 31/12/T-5 is made by comparing the forward-looking cumulative PD lifetime over the 25y residual life.

⁴¹ The classification as NPE is measured over multi-year time horizons.



origination date above compared with a certain threshold. For corporate issuers, the multi-year PD curve is the multi-year corporate segment one relating to vintage 1 estimated entirely by the Group; for government issues, the multi-year PD curve is the one prepared on the basis of the Moody's, Standard & Poor's and Fitch migration matrices of 1-year for government bonds; Standard & Poor's migration matrices corresponding to the Euro area were used to estimate multi-year PDs of credit exposures to banks and non-banking and financial institutions (NBFIs). Cumulative PDs subject to comparison are based on the same model used for ECL purposes 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, MPS Group 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, at the valuation date, have a rating level equal to investment grade, in full compliance with the provisions of IFRS 9. For debt securities, as well, a qualitative criterion was introduced to identify the existence of a "significant increase" in credit risk, which determines the stage 2 allocation of tranches belonging to counterparties in the high-risk management portfolio. 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. During the 2023 financial year, in order to reduce the frequency of transfers between stages, a stabilisation rule was introduced that requires a probation period both inbound and outbound.

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

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

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

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

- adoption of a Point in Time (PIT) PD against the Through the Cycle (TTC) PD used for regulatory purposes;
- elimination of certain additional components from LGD, such as indirect costs (non-recurring costs), further conservative margins specifically introduced for statutory models, the component linked to the economic downturn; as well as to reflect the most current recovery rates (PIT), forward-looking expectations about future trends 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 discount rates determined in accordance with prudential regulations.

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

IFRS 9 establishes that, at each reporting date, an entity must measure the impairment of an asset based on the expected credit loss, based on available, reasonable and consistent information, without incurring excessive costs or making disproportionate efforts. Therefore, the forward-looking approach envisaged by IFRS 9 for purposes of determining the expected loss represents a key aspect of the measurement model.

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

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

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

The forward looking forecasts of the macroeconomic indicators, provided by a leading external consultant and internally re-formulated by the Studies and 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 Group. The macroeconomic scenario is updated at least once a year, at the time of preparation of the separate financial statements and every time the latest base scenario shows, compared with the one already in use, a net cumulated difference of the GDP, over a 3-year period, greater than or equal to 0.5%, in absolute value. In greater detail, for the impairment of loans, in addition to the “baseline” scenario, i.e., the forecast macroeconomic scenario on the basis of which the MPS Group develops its projections of economic/equity and risk data over a short- and medium-term time frame, two symmetrical scenarios are assumed: an alternative severe scenario (severe but plausible) and an alternative improved scenario (best), which differ in their level of favour/adversity to economic development and growth. For more details on the macroeconomic scenarios incorporated in the calculation of expected losses of performing exposures, please refer to the following paragraph “Group macroeconomic scenario for the valuation of receivables in the 2023 financial statements”.

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

- PD: Italian GDP, unemployment rate, interest rates, inflation, commercial property prices, and stock indices;
- LGD/EAD: Italian GDP, unemployment rate, price of residential properties, interest rates, investments in construction, machinery and means of transport;
- cure/danger rates: Italian GDP and Residential property prices;
- haircut: commercial and residential property prices.

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

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



For further details on the model for determining expected losses on performing exposures, with particular reference to the stage assignment criteria, the method for calculating the risk parameters, the macroeconomic forecast scenarios and the related probabilities of occurrence, please refer to the paragraph “Methods to measure expected losses” contained in “Part E - Information on risks and hedging policies” of these Notes to the financial statements.

Impairment of non-performing financial assets

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

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

For purposes of estimating future cash flows and the relative collection times, the loans in question of a significant 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”) and suitably integrated to take into account forward-looking information, is represented by:

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

The statistical valuation, carried out for bad and unlikely-to-pay loans of less than EUR 1 mln and for all past-due and/or overdrawn loans, presents specific characteristics depending on the type of exposure involved.

With reference to bad loans, the statistical valuation is based on non-performing LGD grids, where the LGD model is mainly characterised by the differentiation of the loss rates, based on the permanence in the risk status (“vintage”), as well as the type of customer. The grids are also differentiated by other significant analytical characteristics on the model estimation stage (e.g. technical form, type of guarantee, geographical area, exposure band, etc.). The recovery time grids are broken down mainly by regulatory segment and by other significant analysis axes in the modelling (e.g. recovery procedures, exposure band, technical form).

With reference to unlikely-to-pay and non-performing past due exposures, the valuation is carried out by applying statistical LGD grids specifically estimated for positions classified in these administrative categories, in line with the LGD grids estimated for bad loans. The LGD for unlikely-to-pay and non-performing past due exposures is obtained by recalibrating the bad loan LGD through the danger rate module. The danger rate is a multiplicative correction factor aimed at recalibrating the bad loan LGD with the information available on other default events, so as to obtain an LGD representative of all possible default events and their evolution.

Regarding the treatment of large-scale disposals, in line with IFRS 9 accounting standards, which require that the following forward-looking information be considered, it is necessary to assess whether transactions of this kind performed in the past can be regarded as foreseeable or probable also in the future, or whether, on the other hand, since these are one-off transfers of an extraordinary nature, the related impacts should be excluded from the forward-looking information. In fact, it is not considered in compliance with the provisions of IFRS 9 on forward-looking information, the inclusion in the calculation of the accounting LGD, and therefore of the ECL, of the effects from transactions that the Group does not expect to occur in the future or that are considered unlikely. In applying the aforementioned accounting provisions in relation to the prospects for the sale of NPLs, the Group distinguishes between ordinary and extraordinary transactions, where the extraordinary nature of the transfers is connected to the presence of important strategic elements and significant dimensions, and is evidenced by specific decisions of the ECB. Therefore, ordinary transfers are always included in the determination of the accounting LGD as the transfer represents an alternative collection method to a direct collection from the debtor; by contrast,



extraordinary transactions are in no way considered representative of the transactions that the Group will carry out in the future, having now reached a physiological NPE ratio level and are therefore excluded from the estimation of the accounting LGD.

The analytical-specific valuation for bad loans and unlikely to pay exceeding EUR 1 mln is an assessment made by the managers on the individual positions based on a qualitative-quantitative analysis of the economic and financial situation of the main debtor and the guarantors in order to identify and quantify the sources and recovery times consistent with the most likely scenario of evolution of the credit relationship, i.e. the restoration of the counterparty to performing status or, alternatively, the progressive decommitment also through the use of scheduled transfers in line with the NPE Strategy.

In particular, for bad loans, a set of factors are taken into account, which may or may not be present depending on the characteristics of the positions, and which must be assessed with the utmost accuracy and prudence, including by way of example:

- nature of the credit, preferential or unsecured;
- shareholders' equity of obligors/third parties providing collateral;
- complexity of existing or potential disputes and/or underlying legal issues;
- exposure of obligors to the banking system and other creditors;
- latest available financial statements;
- legal status of obligors and pending bankruptcy and/or individual proceedings.

To find the estimated realizable value of loans secured by real estate and to take into account both the historical collection data, differentiated between commercial and residential properties, and forward-looking considerations, in line with IFRS 9, the approach adopted is focused on the valuation of real estate in reference to the average expected auction and the corresponding reduction in the observed price, calculating the average haircuts differentiated by type of real estate guarantee (residential and non-residential).

With reference to bad real estate loans deriving from lease agreements, in light of the characteristics of the product (absence of auctions), the haircut is estimated as loss of value of the asset between the last available appraisal value and the expected sale price, calculated based on the evidence emerging from the collection process.

With reference to unlikely to pay loans, the assessment is based on a qualitative-quantitative analysis of the economic, equity and financial position of the debtor and on a timely verification of the risk situation; in the presence of counterparties. In the case of unlikely-to-pay loans secured by real estate and valued on the basis of the gone-concern scenario approach specified below, the haircut is applied not to the entire market value of the guarantee (as in the case of bad loans) but only to the portion pertaining to the credit exposure that is expected to become bad loan; alternatively, the cure rate of the related exposures is taken into account.

The appraisals that can be used for the valuations are those carried out by independent experts enrolled in Registers and/or Professional Associations and are subject to an annual update process.

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

- going concern approach: the debtor'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 debtor'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 debtor or extraordinary transactions;
- Gone Concern approach: applicable in cases in which it is believed that the debtor's cash flows will be significantly reduced or even in cases of reduced reliability of the corporate Business Plans. 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 as well as, in the alternative, on the realisation value of the assets, taking into account liabilities and any rights of pre-emption.

The NPE Strategy may also contemplate, under certain conditions, the sale of portfolios en bloc to entities specialised in the management of non-performing loans, in order to reduce collection times by maximising the recovered revenues as much as possible and thus strengthening the NPE destocking process.

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). In particular, consistently with the objectives of the transfer, from time to time arranged by the competent corporate Bodies in relation to exposures classified as bad loans or unlikely to pay, two different estimates of cash flows that the MPS Group expects to collect are associated with them:

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

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

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

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

- loans subject to ordinary collection process: application of the relevant accounting policies previously illustrated;
- loans included in the sale programme: measured with the ordinary policy plus any add-ons to adjust the portfolios to the presumable realisable value.

To determine the add-on, the Group 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 that can also be inferred as a result of expressions of interest already received, as well as additional positions resulting from assessments of economic benefit performed by the Parent Company’s competent bodies (e.g., presence of extended bad loans or high danger rate);
- probability of sale: the probability is guided by the target sales level included in the NPL Strategy;
- 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.

The aforementioned add-on is not applied in the case of sales with a price constraint defined to an extent not lower than the net book value determined by applying only the hold scenario.

Within the range of possible approaches to estimation models permitted by the relevant international accounting standards, the use of a methodology or the selection of certain estimation parameters may significantly affect the valuation of receivables. These methodologies and parameters are necessarily subject to a continuous updating process, also in view of the historical evidence available, with the goal of refining the estimates to better represent the presumed realisable value of the credit exposure.

For updates introduced in the measurement of expected losses, please refer to the specific paragraph contained in the “Credit risk” section of “Part E - Information on risks and hedging policies” of these Notes to the financial statements.

In light of the above, it cannot be excluded that alternative monitoring criteria or different methodologies, parameters, assumptions in determining the recoverable value of the Group’s credit exposures – also affected by possible alternative recovery strategies approved by the competent corporate bodies as well as the evolution of the economic-financial and regulatory context of reference – may determine different valuations with respect to those carried out for the purposes of preparing the consolidated financial statements as at 31 December 2023.

*Incorporation of climatic and environmental risks in the determination of expected losses*

One of the most complex aspects to assess, for the purposes of estimating the expected losses of credit exposures, is the actual relevance of climatic and environmental risks, given the uncertainty that inevitably characterises forecasts of events that, by nature, are likely to occur over a long-term time period.

The models currently used by the Group to calculate expected losses (ECL) do not directly incorporate the risks arising from the exposure of debtor counterparties to climate and environmental factors, however, in 2023 the Group has continued to refine its PD, LGD and EAD models currently in use in order to be able to discriminate within them also the typical variables of climate and environmental risks such as physical and transition risk. It is expected that these models will be able to be used as early as the 2024 financial year, subject to the completion of the internal validation process currently underway.

Pending the approval of the new models, the Group has factored climate-environmental risks into the ECL calculation models for the year 2023, estimating the impacts that the different transition scenarios may produce on the accounting models currently in use, taking into account that these are scenarios characterised by transition policies and implementation times that can significantly affect various macroeconomic indicators. The analyses carried out led to higher provisions for a total of EUR 38.1 mln.

With regard to non-performing loans subject to analytical valuation, climate and environmental risks are taken into account in the estimation of the current value of expected future cash flows, on a discretionary basis and in conjunction with other information. Therefore, it cannot be ruled out that the possible development of models capable of more fully factoring climate and environmental risks may result in different assessments with respect to those conducted for the purposes of preparing these Consolidated Financial Statements.

For an illustration of how the Group is working to assess environmental factors in the context of lending policies, please refer to “Part E - Information on risks and hedging policies” of these Notes to the financial statements.

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.

The Group alternatively uses a set of indicators based on several factors, referring to the investee, including the type of business, market listing and budget objectives. The presence of impairment indicators entails the recognition of a write-down in the amount for which the recoverable value is lower than the book value. The recoverable value is the greater of the fair value less costs to sell and the value in use. For the methods used to determine the fair value, refer to the information in chapter A.4 - Information on fair value in the Notes to the Financial Statements. The value in use is the present value of cash flows arising from the asset; it reflects the estimate of the cash flows expected from the asset, the estimate of possible changes in the amount and/or timing of cash flows, the time value of money, the price for remunerating the asset's risk and other factors that can influence the pricing, by market dealers, of the cash flows expected from the asset. In determining the value in use, the discount method applied to future cash flow is used through discount rates reflecting the cost of capital of the investee.⁴² The parameters and projections on which the estimates are based derive from the updating of the associates' plans, which incorporate the indirect effects of the Russian conflict in Ukraine and the climate issue, if considered relevant, and are significantly affected by the macroeconomic framework and the dynamics of the financial markets, which could see changes that are not foreseeable today.

The impairment test carried out in 2023 required value adjustments for the associate Fidi Toscana (EUR 6.6 mln). For information on the book value of the main equity investments, please refer to the section entitled “Equity investments - Item 70” contained in “Part B - Information on the Consolidated Balance Sheet” of these Notes to the Consolidated Financial Statements.

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. As at 31 December 2023, the carrying value of goodwill was tested for impairment, as

⁴² A growth rate applied to available data is used to determine future cash flows that are not made explicit in the companies' plans.



described in the section “Intangible Assets - Item 100” of “Part B - Information on the consolidated balance sheet” of these Notes to the consolidated financial statements, to which reference is made for further details.

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. In this regard, it should be noted that no refinements were made to the cash flow projections to account for ESG risk factors, as these were not deemed to be able to affect the results of the test, due to the significant excess of the recoverable value of the CGU over the carrying value. In any case, it should be noted that verifying the recoverability of this asset is a complex exercise, the results of which are affected by the valuation methods adopted, as well as the underlying parameters and assumptions, which may need to be modified to take into account new information or changes that are not expected at the date of preparation of these consolidated financial statements. For this reason, a sensitivity analysis is provided in the aforementioned intangible assets section, in order to assess whether the recoverable value will hold against alternative hypotheses and assumptions.

The property, plant and equipment and intangible assets with definite useful life are tested for impairment in the presence of any indication that the book value of the asset may not be recovered. The recoverable value is computed with reference to the fair value of the property, plant and equipment or intangible asset, net of the disposal charges or the value in use if this can be calculated and exceeds fair value.

In particular, with regards to the software, with reference to closed projects of amounts exceeding EUR 1 mln, the Group performed the recoverable value check using assumptions and estimates in line with those of the 2022 Financial statements. The impairment test conducted as at 31 December 2023 was based on the monitoring of specific key performance indicators (KPIs), identified when the projects were closed, in order to verify the economic benefits assumed in the reference business cases. The outcome of the monitoring showed values of these KPIs exceeding the reference thresholds set in the business cases for all projects. For projects with a value below the aforementioned threshold without specific KPIs, the impairment test of the related software was conducted consistently with previous financial years and led to the recognition of an impairment loss of EUR 0.7 mln.

The values of right of use assets acquired through leasing are subject to impairment testing, if the conditions are met. The test is performed when the following events or situations arise: full/partial abandonment, under-use or non-use of the leased asset. In addition, it is necessary to refer to indicators from internal sources such as signs of obsolescence and/or physical deterioration of the asset, restructuring plans and closures of branches and external sources such as, for example, the increase in interest rates or other rates of return on the market for investments that may cause a significant decrease in the recoverable value of the asset. The outcome of the aforementioned checks as at 31 December 2023 led to the recognition of a minor impairment loss recognised in the item “Impairment losses/reversals on property, plant and equipment”.

For information on the rights of use acquired through leasing, please refer to the section “Property, plant and equipment - Item 90” contained in “Part B - Information on the consolidated balance sheet” of these Notes to the Consolidated Financial Statements.

Determination of the fair value of property

Real estate used in the business (IAS 16) and real estate held for investment purposes (IAS 40) are valued in accordance with the revaluation criterion and the fair value criterion, respectively. For this perimeter, the fair value update is determined through the use of specific appraisals prepared by qualified and independent experts, which, depending on the relevance of the individual real estate unit, are conducted in two different alternative ways:

- “full” appraisals: based on a physical inspection of the property assets by the appraiser; or
- “desktop” appraisals, based on an assessment performed with no physical inspection of the property asset and, therefore, based on reference market values.

The valuation methodologies applied by the appraiser in the appraisal are aligned with international IVS (International Valuation Standards) practices and with the requirements stated in the latest edition⁴³ of the Red Book of the UK’s Royal Institute of Chartered Surveyors (RICS) and they comply with the provisions of IFRS 13. The accounting standard provides, in particular, for non-financial assets that the use by their owner meet the requirement of highest and best use, unless the market participants expect different intended use for the property, which would therefore optimize its value. The valuation approach was therefore specified by the expert appraiser based on the current intended use of the properties, assuming this represents the highest and best use, and

⁴³ The updated version was issued in November 2021 and is effective from 31 January 2022.



considering, in a few cases, alternative uses of the properties where this corresponds to market expectations. Therefore, to find the value of each property, the appraiser identifies the most suitable methodology according to the characteristics of the asset and the conditions of the reference market. The methodologies applied by the appraiser are as follows: Discounted Cash Flow Method (or Discounted Cash Flow - abbreviated to DCF); Market Comparison Approach (MCA); Transformation Method with DCF. In this context, the lease payments, sale prices, discount rates and capitalisation rates were estimated.

With reference to the ESG issue, in which the environmental issue is included, the RICS valuation standards specify the actions to be followed by the appraiser with regard to on-site inspections and the collection of data useful for assessing this aspect. The range of issues to be addressed includes, among others, major physical hazards (floods, heat, fire and storms) and transient hazards (energy efficiency, carbon emissions, climate impact). The impact of these risks is affected by current and historical use of the territory, as well as design, configuration, accessibility, legislation as well as management according to tax regulations.

As at 31 December 2023, the fair values of the entire real estate assets were updated, which is done at least annually unless market situations and/or special conditions make it advisable to bring forward the valuation appraisals from the standard periodicity.

The results of the valuations carried out as at 31 December 2023 are described in the section “Property, plant and equipment - item 90” in “Part B - Information on the Consolidated Balance Sheet” of these Notes to the Consolidated Financial Statements, to which reference should be made for further details.

For an in-depth analysis of the valuation approach, valuation methods and the selection of estimation parameters that can significantly influence the calculation of fair value, reference should be made to the specific qualitative and quantitative disclosure in Part A.4 - “Information on fair value”.

Methods for recognising deferred tax assets (probability test)

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

Forward-looking plans approved by the Boards of Directors of the various companies are used; the plans of the subsidiaries are consistent with the Group's forecasts. Since the forecast plans cover a limited time horizon, as carried out in practice to determine the forward value of companies, the results subsequent to the plan horizon are assumed to be equivalent to those of the last year of the plan and increased by a compound long-term growth rate “g”. In any case, the framework of the probability test is consistent with that of the impairment test used for the measurement of goodwill, except for the specifics related to regulatory requirements (IAS 12 and IAS 36, respectively) such as, for example, the possibility in the probability test to take into account business restructuring and reorganisation actions included in the forecast plans, which is not considered in the goodwill impairment test. For more information reference should be made to paragraph “Impairment test on Group goodwill” included within Section 11 of the consolidated assets of these Notes to the Financial Statements.

In order to reflect the uncertainty associated with realising future taxable income suitable to allow the recovery of deferred tax assets, a discount factor is used based on data observable on the market and consistent with the risk metrics of the investment in Banca MPS shares. The application of this discount factor, equal to 9%⁴⁴ as at 31 December 2023, unchanged with respect to the one used for the financial statements as at 31 December 2022, represents a way of reflecting the uncertainty around the realisation of future income; in any case, it is believed that the time period considered for the purposes of the taxable income test, the realisation of which is considered likely, cannot exceed 20 years.

The development of the probability test, where applicable, takes into account the national tax consolidation agreements, for the Group companies participating in them, and the option exercised in the tax return with respect to the possible allocation of residual tax losses in the event of early termination of group taxation. Based on the agreements and the option in force as at 31 December 2023 as well as in previous years, the assessment of the recoverability of the consolidated tax loss carry-forwards and the consequent recognition of the related DTAs, are entirely the responsibility of the Bank as consolidator, which reports the related accounting impacts in its individual financial statements. For further information, please refer to what was previously described in this Section of the Notes to the financial statements, Part A2, “Part relating to the main items of the financial statements”.

In particular, as at 31 December 2023, the valuation of the DTAs was carried out in continuity with the methodology already applied to the Financial Statements as at 31 December 2022, thus taking into account the

⁴⁴ Changes to the discount factor are considered when the average of the last 3 years of the rate calculated at the reference date deviates by at least $\pm 1\%$ from the last rate used.



2022-2026 forecast plan approved by the Board of Directors of the Parent Company on 22 June 2022; the forecast plans of the subsidiaries are consistent with that of the MPS Group.

As a matter of prudence, for the purpose of the valuation for the financial statements as at 31 December 2023, the economic results of 2025 and 2026 outlined in the Business Plan approved by the Parent Company were not considered in the explicit period, limiting the positive evolution expected for future years to that resulting from the data forecast for 2024; the economic results for the years subsequent to 2026 were determined by increasing the long-term growth rate (g) of the result forecast for the immediately preceding year on a compound basis.

Section 11 - "Tax assets and tax liabilities" contained in "Part B - Information on the Consolidated Balance Sheet" of these Notes to the Financial Statements provides information on the breakdown of deferred tax assets and the checks carried out on their recoverability, on the *sensitivity* analyses aimed at allowing an appreciation of the time frame of their recovery, depending on reasonable variations in the main underlying assumptions.

Risks, uncertainties and impacts of the Russia-Ukraine conflict

Among the main factors of uncertainty that could affect the future scenarios in which the Group will operate, the negative impact on the global and Italian economy directly or indirectly related to the conflict between Russia and Ukraine must be considered.

The uncertainties about the consequences of the war, especially with regard to indirect impacts, and the duration of the war make any valuation process particularly complex, as they, on the one hand, increase the risk of the economic environment in which business is carried out and, on the other, increase the risk of limited predictability of economic projections. These uncertainties translate into an increase in the risk of having to make significant adjustments to the book value of the assets in the financial statements.

In accordance with the recommendations of the supervisory authorities (ESMA and CONSOB)⁴⁵, provided below are the Group's credit exposures that are directly or indirectly impacted by the conflict, to allow understanding of the extent of the phenomenon and the actions undertaken by the Group to constantly monitor the credit risks related to the Ukrainian conflict.

With reference to uncertainties associated with the reference macroeconomic scenario, also as a result of the conflict, please refer to the following paragraph "Group macroeconomic scenario for the valuation of receivables in the 2023 financial statements".

The impacts of the conflict are constantly monitored by the Group, as part of an ordinary and no longer a crisis regime, considering it no longer necessary to strengthen governance of the phenomenon, also in relation to the constant reduction of exposures.

The impacts directly related to the Russia-Ukraine conflict are marginal for the Group, taking into account that it has no operations located in Russia or Ukraine and that credit exposures to customers residing in the aforementioned countries or indirectly related to Russian or Ukrainian counterparties amount, as at 31 December 2023, to EUR 10 mln and are classified as stage 2.

With reference to other risks, exposures denominated in Russian currency are immaterial, and no negative change has been observed in the main liquidity indicators.

Finally, with reference to the indirect impact on credit quality, it should be noted that the initiatives, carried out through contact campaigns, towards customers belonging to the sectors most affected by the energy prices and the difficulties in finding raw materials, triggered by the conflict, came to an end during 2022. The outcome of these initiatives did not indicate the need to take any action other than those already planned and implemented as part of ordinary credit monitoring activities.

⁴⁵ See in particular the documents "ESMA Public Statement: ESMA coordinates regulatory response to the war in Ukraine and its impact on EU financial markets - 14.03.2022" and "ESMA: Public Statement - Implication of Russia's invasion of Ukraine on half-yearly financial reports - 13.05.2022", "ESMA: European common enforcement priorities for 2022 annual financial reports - 28.10.2022", "CONSOB draws the attention of supervised issuers to the impact of the war in Ukraine with regard to inside information and financial reports - 22 March 2022" and finally "Warning notice no. 3/22 of 19 May 2022".

*Macroeconomic forecasts for 2024, 2025 and 2026*

On 16 December 2023, the ECB published the periodic update of its macroeconomic forecasts for the euro area prepared by its staff with input from the individual national central banks, forecasting economic growth to remain weak in the short term in the face of tight financing conditions and a limited expansion of exports. With the decline in inflation – as a result of the elimination of cost pressures and the effects of the ECB's monetary policy – the recovery of household incomes and the strengthening of external demand, the economy should grow by 0.6% in 2023, by 0.8% in 2024 and by 1.5% in 2025 and 2026. In comparison with last September's projections, the outlook for the GDP growth rate has been revised slightly downwards for the period 2023-2024 (by 0.1 and 0.2 percentage points, respectively), in the wake of the most recent statistics published and modest data from economic surveys, while they are unchanged for 2025.

To be noted is that inflation continued to fall due to the decline in the energy component, the impact of the tightening of monetary policy and the continued easing of inflationary pressures and supply-side bottlenecks. Overall, in a context in which medium-term inflation expectations are believed to remain anchored to the ECB's 2% target, overall HICP inflation is expected to fall from 5.4% in 2023 (5.6% in September) at an average of 2.7% in 2024 (3.2% in September), 2.1% in 2025 (unchanged compared to September) and 1.9% in 2026.

In the unfavourable scenario, which factors in the extreme risks of a possible worsening of the conflict in the Middle East, real GDP growth in the euro area is estimated to be 0.7 percentage points lower in 2024 and 0.3 percentage points lower in 2025 and should rise again in 2026, as it is assumed that the effects related to uncertainty will gradually disappear over this time period. Inflation in the euro area measured on the HICP is expected to increase by 0.9 and 0.4 percentage points, respectively, in 2024 and 2025, mainly due to the increase in energy prices worldwide.

The specific scenario for Italy, included in the base scenario of the ECB projections, was released by the Bank of Italy in the document "Macroeconomic projections for the Italian economy" published on 16 December and confirmed in the Economic Bulletin of 19 January 2024. The scenario predicts, after the slight increase in the summer months, a substantial GDP stagnation in the fourth quarter of 2023 and a gradual expansion from the beginning of 2024, supported by the recovery of disposable income and foreign demand. On an annual average, GDP would increase by 0.7% in 2023, 0.6% in 2024 and 1.1% in 2025 and 2026.

Consumer inflation would average 6.0% this year and decline sharply thereafter, averaging below 2% over the next three years. The decline would mainly reflect the sharp fall in the prices of raw materials and intermediate goods, only partly offset by the acceleration in wages.

Macroeconomic scenarios of the Group for the valuation of loans in the 2023 financial statements

In December 2023, the Group approved a set of forecast macroeconomic scenarios for the 2024-2027 period developed internally, taking also as reference the forecasts developed by external providers. These scenarios were used as part of the ordinary annual planning process and the calculation of value adjustments of performing and non-performing loans as at 31 December 2023.

The baseline scenario approved by the Group shows a higher level of conservatism compared to the forecasts published by the Bank of Italy in December 2023, in particular, for the years 2024 and 2025, GDP growth is expected to be 0.4% (0.6% Bank of Italy) and 0.8% (1.1% Bank of Italy). In addition to the baseline scenario, in light of the objective uncertainty present regarding the evolution of the economic context and the provisions of the Regulators, further alternative scenarios have been outlined, in detail an alternative more negative scenario (*severe but plausible*) and an alternative better scenario (*best*).

The most severe alternative scenario (*severe but plausible*) foresees a worsening of the global geopolitical situation with continuing tensions in Israel, which would lead to economic repercussions on the prices of energy goods, oil and gas, which would rise again, slowing down the descent of inflation and inducing central banks to raise interest rates further, despite the fact that several countries are experiencing phases of strong slowdown and even a fall in economic activity. With regard to the Italian economy, this general uncertainty would be added to the specific uncertainty due to the high public debt.

The alternative best-case scenario forecasts an improvement in the global geopolitical situation with international pressure on Israel favouring the easing of tensions in the Middle East. In such a scenario, oil and gas prices quickly fall back to bottom levels and favour the emergence of base effects, bringing overall European inflation back towards 2% already in the course of 2024 and guaranteeing a reduction in interest rates one quarter earlier than in the base scenario. In this context, a positive financial market cycle is restarting, so that final demand can also be supported by positive wealth effects.



For information on the performance of macroeconomic variables in the scenarios described above, please refer to “Part E - Information on risks and hedging policies, section 1.1 Credit risk, paragraph 2.3 Methods for measuring expected losses” of these Notes to the Financial Statements.

The table below shows, by way of example, the scenario updates made by the Group in December 2023 on the GDP indicator with the relative comparison with the baseline scenario published by the Bank of Italy respectively in October 2023 and December 2023 and with the scenarios used in December 2022.

	Dec-23			Oct-23	Dec-23	Dec-22		
	GMPS	GMPS	GMPS	Bankit	Bankit	GMPS	GMPS	GMPS
	Baseline	Severe but plausible	Best	Baseline	Baseline	Baseline	Severe but plausible	Extreme worst
2023	n.a	n.a	n.a	0.7%	0.7%	0.10%	-0.91%	-2.53%
2024	0.43%	-0.40%	1.49%	0.8%	0.6%	1.01%	0.48%	0.02%
2025	0.83%	0.45%	1.40%	1.0%	1.1%	1.41%	1.02%	0.71%
2026	0.88%	0.49%	1.18%	n.d.	1.1%	n.a	n.a	n.a

Note that the baseline scenario used by the Group in 2023 has always been in line, if not more conservative, with the forecasts provided by the Bank of Italy.

With reference to the risk parameters, it should be noted that in 2023, the PD and LGD models were re-estimated to follow the evolution of the regulatory models developed for the purposes of the 2024 Model Change, appropriately adjusted to reflect the current conditions of the economic cycle. In detail, the re-estimation for the PD models involved the updating of the time series with the implementation of the evidence of the default rates observed in the first nine months of 2023, for the LGD models the update included reducing the length of the time series to better capture the higher loss rates observed in recent years. For further details on the model updates, please refer to the information provided in the section Credit Risk – paragraph “2.2 Management, measurement and control systems” of Part E of these Notes to the consolidated financial statements.

The re-estimation in question entailed higher adjustments for a total of EUR 205.8 mln, mainly attributable to the LGD parameter, with stage 2 exposures remaining largely unchanged.

Management overlays

With regard to management overlay for sector vulnerabilities the Group has decided to operate, for the purposes of the consolidated financial statements as at 31 December 2023, in substantial continuity of methodology with respect to what was done for the purposes of the 2022 financial statements. It should be remembered that, as at 31 December 2022, “post-model adjustments” had been applied to the results of the ECL estimation methods, within the framework of flexibility allowed by IFRS 9 and in light of the greater prudence necessary in relation to significant risk deriving from the current and forward-looking contexts. The management overlays were necessary to remedy some limitation of models, to capture the uncertainties and risks inherent in the forecast as well as the observed/predicted deviation from long-term series.

As at 31 December 2023, the re-estimates in the PD and LGD models made it possible to factor in the models some phenomena that had been handled as at 31 December 2022 through management overlay, such as the dependence on rates in the PD models dedicated to retail mortgages and more conservative LGD estimates due to the recent context and the constant disposal program. Compared to 31 December 2022, the overlays deriving from back testing analyses on loans are not necessary and the overlay on variable rate mortgages is significantly reduced.

In addition, the update of the macroeconomic scenarios as at November 2023 and the conservatism of the baseline scenario approved by the Group with respect to the main institutions, made it possible to factor in the models the tensions on energy prices following the conflict between Russia and Ukraine and in Palestine, making the overlays associated with energy-intensive sectors and the use of asymmetric macroeconomic scenarios no longer necessary.

Starting from the fourth quarter of 2023, the Group has included climate-related factors in the credit risk estimates, integrating the macroeconomic indicators observed on the “Net Zero 2050” climate scenario, provided by an external provider “Network for Greening the Financial System (NGFS)” into the baseline macroeconomic model adopted by the Group. The latter, characterised by a proactive behavior of the economic system with respect to the energy transition, would entail a global economic contraction due to the huge costs incurred to achieve the set-out objective.



In addition, taking into account the current market context characterised by high interest rates and consequent refinancing risks for customers, especially in sectors such as real estate, the Group decided to revise downwards the property price index forecast in the “severe but plausible” scenario issued by the external provider.

Lastly, starting from the third quarter of 2023, the Group applied an adjustment to exposures classified in higher risk classes within the internal early warning system, in order to take into account the probability that customers may be affected by financial distress, also considering the continuing uncertainty in macroeconomic forecasts.

Overall, the management overlays used for valuations as at 31 December 2023 resulted in higher adjustments of about EUR 54.0 mln (about EUR 108.4 mln as at 31 December 2022) and higher exposures classified in stage 2 of about EUR 375.9 mln (EUR 84.1 mln as at 31 December 2022).

For further information on the assumptions and hypotheses used in the estimation, as well as for more details on the sectoral impacts of the above-mentioned overlays, and for the sensitivity analysis with respect to alternative scenarios, please refer to “Part E - Information on risks and hedging policies, section 2 - Risks of prudential consolidation, 1.1 Credit risk, paragraph 2.3 Methods for measuring expected losses” in these Notes to the Financial Statements.

Inclusion of government guarantees

Finally, with regard to the treatment of government guarantees, it should be noted that, in accordance with the guidance of the Authorities, these did not impact the calculation of the SICR - since the latter does not depend on the guarantees, but on the creditworthiness, which remains specific to the counterparty; they have instead affected the estimate of the ECL, through the use of an LGD parameter that takes into account the government mitigation measures, introduced and expanded with the “Cura Italia” and “Liquidità” decrees. This approach derives from the assessment carried out on the characteristics of the guarantees that allow them to be considered as an integral part of the contract pursuant to IFRS 9.

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Disclosure on public funding pursuant to art. 1, paragraph 125 of Italian Law no. 124 dated 4 August 2017 (“Annual Law for the Market and Competition”)

It should be noted that as at the reporting date of these financial statements, in the National Register of State Aid, the grants received by the Group for the year 2023, mainly for training activities, totalling EUR 2.9 mln, are posted and publicly available in the Transparency section “Individual Aid”. In this regard, it should also be noted that, in line with the provisions of the law, the economic benefits below the threshold of EUR 10,000 are not reported (threshold referring to the total amount of benefits received by the Parent Company or each company of the Group from the same authority in the financial year 2023 in a single deed or in several deeds).

For details, please refer to the following link: https://www.rna.gov.it/sites/PortaleRNA/it_IT/trasparenza.

It should also be noted that EUR 0.2 mln was received in 2023 by the subsidiary MPS Tenimenti Poggio Bonelli e Chigi Saracini Società Agricola S.p.A., in the form of grants and bonuses to support agricultural production in the European Union countries.



A.3 Information on portfolio transfers

The tables on transfers between portfolios of financial assets were not created, as in the 2023 financial year, as in previous years, the Group did not carry out any reclassification transactions following the change in the Business Model, that is to say of the procedures used by the Group to manage financial instruments.

A.4 – Information on fair value

Qualitative information

IFRS 13 defines fair value as the price that would be received for the sale of an asset or that would be paid for the transfer of a liability in a regular transaction among market operators operating on a going concern basis (that is, not in a forced liquidation or a sale below cost) at the conditions prevailing on the valuation date in the main or most advantageous market (exit price). The Group must measure the fair value of an asset or liability by adopting the assumptions that market participants would use in determining the price of the asset or liability, assuming that they act to best meet their economic interests.

For the purposes of measuring financial and non-financial assets and liabilities at fair value, IFRS 13 defines a threefold hierarchy of fair value, based on the source and quality of the inputs used. 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 that are not listed on active markets must be classified in level 2 or 3. An instrument is classified in level 2 if all significant inputs are observable on the market, directly or indirectly. 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) prices quoted for the instrument under analysis or for similar instruments on non-active markets, i.e. markets in which: (i) there are few transactions, (ii) the prices are not current or vary substantially over time and among the various market makers or (iii) 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 when:

- 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.

For financial instruments, measured at fair value in the financial statements, the Group has adopted a “Fair Value Policy” that assigns the highest priority to prices listed on active markets (level 1) and the lowest priority to the use of non-observable inputs (level 3), as they are more discretionary, in line with the fair value hierarchy represented above. In detail, this policy defines:

- the rules for identifying market data, the selection/hierarchy of information sources and the price configurations to value the financial instruments contributed on active markets and classified under level 1 of the fair value hierarchy (“Mark to Market Approach”);
- valuation techniques and related input parameters in all cases in which the “Mark to Market approach” cannot be used, and it is therefore necessary to apply the “Mark to Model approach”.

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 classified in its entirety in a single level; therefore, if inputs belonging to different levels are used in the valuation technique, the entire valuation must be classified in correspondence with the level of the hierarchy in which the lowest level input is classified, if it is considered significant for the determination of the fair value as a whole.

The following types of investments are normally considered as level 2:

- equities not listed on active markets, valued using the market multiples technique, or valued on the basis of actual transactions that occurred within a time frame reasonably close to the reference date;
- OTC derivative financial instruments, if the inputs of the pricing models, used to determine the fair value, are observable on the market or, if not observable, are considered such as not to significantly affect the measurement of fair value;
- third-party debt securities or own issue not listed on active markets whose inputs, including credit spreads, are obtained from market sources.

The following financial instruments are generally considered level 3:

- hedge funds characterised by low levels of liquidity, when the valuation / disinvestment of their assets is believed to require a series of assumptions and estimates to a significant extent. The fair value measurement is carried out on the basis of the adjusted NAV to take into account the low liquidity of the investment;
- alternative investment funds for which the discounted cash flow is used;
- private equity and real estate funds valued on the basis of the last available NAV, adjusted if necessary to take into account events not included in the valuation of the unit or to reflect a different valuation of the assets underlying the fund;
- equity securities for which no recent or comparable transactions can be observed, and valued on the basis of the equity or income model;
- debt securities, ABS and derivative transactions characterised by complex financial structures for which publicly unavailable sources are generally used;
- debt securities issued by parties in financial difficulty for which the “recovery rate” must be estimated;
- financial instruments represented by OTC derivatives for which the non-observable input parameters used by the pricing model are considered significant for the purposes of measuring the fair value;
- (performing and non-performing) medium/long-term loans valued on the basis of expected cash flows estimated with different models depending on the status of the counterparty and discounted using a market interest rate.

For information on the fair value of non-financial assets, attributable to property, plant and equipment represented by properties, please refer to the following paragraph.



A.4.1. Fair value levels 2 and 3: measurement techniques and inputs used

The following tables show, respectively, for Level 2 and 3 financial instruments, the accounting portfolio, a summary of the types of instruments in use at the Group, and evidence of the related valuation techniques and the inputs used.

Items	Fair value Level 2 as at 31 12 2023							Type	Valuation techniques	Inputs used
	Financial assets held for trading	Other financial assets mandatorily measured at fair value	Financial assets measured at fair value through other	Hedging derivatives	Financial liabilities held for trading	Financial liabilities designated at fair value	Hedging derivatives			
Debt securities	290,363	2,611	520,213	X		111,325	X	Bonds	Discounted Cash Flow	Interest rate curves, CDS curve, Basi (yield), Inflation curves
								Structured Bonds	Discounted Cash Flow	Interest rate curves, CDS curve, Basi (yield), Inflation curves + inputs necessary to measure optional component
								Notes	Discounted Cash Flow	Interest rate curves, CDS curve, Basi (yield)
								Notes	Market price	Market price
Equity instruments	119		10,530	X	X	X	X	Share/equity instruments	Market price	Market price, recent transactions, appraisals, manager reports
								Equity instruments	Discounted cash flow	Share price, beta sector, free risk rate
								Equity instruments	Net asset adjusted	Carrying Amount Asset/Liabilities
Financial derivatives	2,067,064	X	X	704,125	936,636	X	330,193	IRS/Asset/Currency Swaps	Discounted Cash Flow	Interest rate curves, CDS curves, Basi (yield) Inflation curve, Foreign exchange rates, rates correlation
								Equity swaps	Discounted Cash Flow	Share price, interest rate curve, Foreign exchange rate
								Forex Singlename Plain	Option Pricing Model	interest rate curve, Foreign exchange rate, Forex volatility
								Forex Singlename Exotic	Option Pricing Model	interest rate curve, Foreign exchange rate, Forex volatility (Surface)
								Equity Singlename Plain	Option Pricing Model	interest rate curve, Foreign exchange rate, Forex volatility (Surface)
								Equity Singlename Exotic	Option Pricing Model	Interest rate curve, share prices, Foreign exchange rate, Equity Volatility (surface), Parameters Models
								Equity Multiname Plain	Option Pricing Model	Interest rate curve, share prices, Foreign exchange rate, Equity Volatility, Quanto Correlations, Equity/Equity Correlations
								Equity Multiname Exotic	Option Pricing Model	Interest rate curve, share prices, Foreign exchange rate, Equity Volatility (surface), Parameters Models, Quanto Correlations, Equity/Equity correlations
								Plain rate	Option Pricing Model	Interest rate curve, Inflation Curve, bond prices, Foreign exchange rates, rate Volatility, rate correlations
Credit derivatives		X	X		92,019	X		Foreign currency transactions	Market price*	Market prices, Swap Point
								Default swaps	Discounted Cash Flow	Curve CDS, Rate curve
Total assets	2,357,546	2,611	530,743	704,125	X	X	X			
Total Liabilities	X	X	X	X	1,028,655	111,325	330,193			

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



Fair value level 3 as at 31 12 2023							
Items	Other financial assets mandatorily measured at fair value	Financial assets measured at fair value through other comprehensive income	Financial liabilities held for trading	Type	Valuation Techniques	Unobservable inputs	Range (weighted average)
Debt securities	58,826	-	-	Notes	Discounted Cash Flow	Discount rate	10.22%- 19.48%
		-	-	Participating financial instruments	Credit Model	Fair value asset	0-17.9 €/mln
Equity instruments	1,839	216,843	X	Equity instruments	External prices	Fair value asset	0 – 0.8 €/mln
				Investments	Discounted Cash Flow	Liquidity base/Equity Risk Premium/Beta	20%/8%/0.4
				Investments	Cost/Net equity	Fair value asset	0-12.4 €/mln
				Closed-end Fund	External prices	Fair value asset	7.7 €/mln
Units of UCITS	182,011	X	X	Real estate closed-end Funds	External prices (Management reports)	Fair value assets	535 €/mln
				Private Equity Funds	Nav Investor report	Management reports, Technical data sheet	0.29-16.45 €/mln
				Alternative Investment Funds	Discounted Cash Flow	Discount rate	7.85%- 10.81%
Loans	123,284	-		Loans	Discounted Cash Flow	NPE spread	1.92% - 1.92%
				Loans	Discounted Cash Flow	LGD	0.36% / 60.85%
				Loans	Discounted Cash Flow	PD	0.07% / 41.74%
				Loans	Discounted Cash Flow	PE spread	0.01% / 1.15%
Credit derivatives	X	X	2,868	IR/Asset/Currency Swaps	Discounted Cash Flow	Surrender Rate	No dynamics/stochastic volatility
Total assets	365,960	216,843	X				
Total liabilities	X	X	2,868				

The techniques and parameters for calculating the fair value, as well as the criteria for assigning the fair value hierarchy, are defined and formalized in the aforementioned “Fair value policy” adopted by the Group. The reliability of fair value measurements is also ensured by the verification activities carried out by a Risk Management structure, independent of the front office units that hold the positions, which periodically reviews the list of pricing models to be used for the purposes of the fair value policy. These models must represent market standards or best practices and the related calibration techniques must guarantee a result in line with valuations able to reflect “current market conditions”. Specifically, to correctly determine the fair value, for each product a pricing model is associated, generally accepted by the market and selected on the basis of the characteristics and market variables underlying the product. With particularly complex products or if the existing valuation model for products in use is deemed to be lacking or inadequate, an internal process is activated to supplement the current models. On the basis of this process, the Risk Management department carries out a first validation of the pricing models, which may be native to the Position Keeping system or be issued by a specific internal unit; this is followed by a stage in which the same unit ensures the reliability of the previously validated model.

In detail, the validation activity, carried out on a range of instruments identified above certain materiality thresholds, is aimed at verifying the theoretical robustness of the model, through an independent repricing of the price, a possible calibration of the parameters and a comparison with the prices of the counterparties.

Following the validation stage, an ongoing review is carried out to confirm the accuracy and alignment to the market of the pricing models used by the Group, and appropriate changes are made, if necessary, to the models and the related underlying theoretical assumptions. To take into account the risk that the pricing models, even if validated, may generate fair value values that are not directly comparable with market prices, an adjustment is made for “Model risk”, as described below.



Financial assets and liabilities measured at fair value on a recurring basis

Financial assets and liabilities measured at fair value on a recurring basis are represented by all financial instruments measured in the financial statements on the basis of the fair value criterion (items 20, 30, 50 of the balance sheet assets and items 20, 30, 40 of liabilities in the balance sheet). For these financial instruments, in the absence of directly observable prices on active markets, it is necessary to determine a fair value on the basis of the valuation approach described in the previous paragraph. The main valuation techniques adopted for each type of financial instrument are illustrated below.

Debt securities

The valuation of non-contributed securities (i.e. securities without official prices expressed by an active market) is carried out through the use of an appropriate credit spread, identified starting from contributed and liquid financial instruments with similar characteristics. The sources from which to draw this measure are as follows:

- contributed and liquid debt securities of the same issuer;
- credit default swap on the same reference entity;
- contributed and liquid securities issued by an issuer with the same rating and belonging to the same sector. In any case, the different seniority of the security to be priced in relation to the issuer's debt structure is taken into account.

Furthermore, for bonds not quoted on active markets, to take into account the higher premium requested by the market compared to a similar contributed security, an additional component, estimated on the basis of the bid/ask spread, is added to the "fair" credit spreads observed on the market.

Loans that do not pass the SPPI test

These are loans measured at fair value as per mandatory requirements 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., they do not pass the "SPPI test"), either by virtue of clauses originally envisaged in the contract or following subsequent amendments. The fair value is valued with the Discounted Cash Flow approach, which is applied in a different way depending on whether the loans are performing/non-performing:

- for performing loans, the fair value is determined on the basis of cash flows, appropriately adjusted for expected losses, based on the unobservable parameters PD and LGD. These flows are then discounted on the basis of a market interest rate, adjusted to take into account a premium deemed to express the risks and uncertainties. In the presence of implicit option components, which, for example, provide for the option of changing the interest rate, the fair value also takes into account the value of said components;
- for non-performing loans, the measurement of the fair value is based on directly or indirectly observable market parameters, which refer to risk factors found in the transfer of NPLs in order to obtain a market price, representative of the uncertainty of the collection process. In particular, cash flow forecasts are expressed by the analytical repayment plans that represent the information on the estimated loss rate on the position. The collection flows estimated in this way are discounted using a discount factor that is constructed starting from a spread representing the uncertainty of the collection process (unexpected loss) and any other residual risk; the discount rate is then calculated by adding this spread to the risk-free interest rate curve, without taking into account the contractual rate.

Unlisted equities

They are valued with reference to direct transactions on the same security or on similar securities observed over a period of time with respect to the valuation date, using the market multiples method of comparable companies and subordinate to financial, income and equity valuation methods.

Investments in UCITS

They are, as a rule, valued on the basis of NAVs or expected flows and/or business plans made available by the fund administrator or management company. If the NAV does not represent fair value, from the perspective of a market participant, the Group may adopt certain adjustments/hairecuts. These typically include private equity funds, alternative investment funds among which funds investing in non-performing loans, real estate funds, hedge funds.

In the specific case of alternative investment funds that invest in NPE loans, the Group has estimated the unit value as the sum of the present values of the expected fund distributions (Discounted Cash Flows). The inputs used are as follows:



- cash flows related to net distributions to investors envisaged in the business plans/management accounts of their respective operations;
- discount rate between 7.85% and 10.81%, depending on the capital structure and the additional premium for the risk of each transaction.

Credit structured products

With reference to ABS (asset backed securities), when significant prices are not available, valuation techniques are used that take into account parameters that can be inferred from an active market (level 2 inputs) or must be estimated, if unobservable (level 3 inputs, if significant). In the first case, the cash flows are acquired from info providers or specialised platforms; the spreads are derived from the prices available on the market/info provider, analysing the performance of the underlying assets on the basis of the investor reports. If they are not available, the Group uses valuation techniques aimed at recreating the contractual waterfall of the securitisations in order to estimate the potential recoveries of the outstanding notes.

Over the counter (OTC) derivatives

Interest rate, exchange rate, equity, inflation, commodity and credit derivatives, where not traded on regulated markets, are valued using appropriate valuation models, fed by input parameters (such as, for example, interest rate, exchange rate and volatility curves) observed on the market and subject to the monitoring processes described in the “Group Fair Value Policy”.

These models estimate the probability that a specific event will occur by incorporating assumptions such as the volatility of the estimates, the price of the underlying instrument and the expected rate of return.

In addition, for the purpose of measuring fair value, the aforementioned “Group Fair Value Policy” envisages that some “fair value adjustments” be considered with the objective of best reflecting the realization price of an actually possible market transaction. In particular, this relates to model risk, liquidity risk and counterparty risk set out below.

Model risk: this adjustment is made to take into account the risk that the pricing models, even if validated, may generate fair value values that are not directly observable or not immediately comparable with market prices. This is the case of pricing algorithms or types of pay-off that are not adequately widespread on the market or in the presence of models particularly sensitive to variables that are difficult to observe on the market.

Liquidity risk: this adjustment is made to take into account the extent of the “bid/ask spread”, i.e. the actual cost of disposing of a position in financial instruments in inefficient markets. The correction for the liquidity risk is greater for more structured products, due to the related hedging/disposal costs, and for valuation models that are not sufficiently established and of widespread use among operators, since this makes the valuations more uncertain.

Counterparty risk: adjustments to the market value of OTC derivatives, classified as “performing”, are made in order to reflect:

- the risk of possible counterparty default - Credit Valuation Adjustment (CVA);
- the risk of non-fulfilment of the issuer’s contractual obligations towards a counterparty (“own credit risk”) - Debt Valuation Adjustment (DVA).

The Group calculates the Credit/Debit Value Adjustment on all positions in OTC derivatives with non-collateralised institutional and commercial counterparties to include counterparty risk in the fair value measurement. The methodology is based on the calculation of expected operational loss linked to counterparty rating and estimated on a position’s duration, and is included in the exposure value via add-ons. The impact of the CVA as at 31 December 2023 amounted to EUR -3.3 mln.

The Group calculates the value adjustment of OTC derivatives in a mirror image fashion and on the same perimeter to take into account its credit worthiness (DVA). As at 31 December 2023, the DVA amounts to a total of EUR 9.3 mln.

**Financial assets measured at fair value on a non-recurring basis***Financial assets and liabilities measured at amortised cost in the financial statements*

For financial assets and liabilities recognised in the financial statements at amortised cost, classified, in the accounting categories of “Financial assets measured at amortised cost” (loans to banks and customers) and “Financial liabilities measured at amortised cost” (deposits from banks and customers and debt securities issued), the calculation of the fair value is relevant for information purposes only, in line with the provisions of the reference accounting standard IFRS 7. The criteria to calculate the fair value of performing and non-performing loans to banks and customers are the same adopted for the fair value valuation on a recurring basis of the loans that do not pass the SPPI test, to which reference is made. Exceptions to this rule are loans to central banks included in the “Loans to banks” portfolio for which the book value is considered a good approximation of the fair value as allowed by accounting standard IFRS 7, and is classified in level 2 of the fair value hierarchy. The same methodology and classification are used for the “Deposits from banks” and “Deposits from customers” portfolios.

For debt securities classified in the “Loans to banks or customers” or “Debt securities issued” portfolio, the fair value was determined through the use of prices contributed on active markets or through the use of valuation models, such as described in the paragraph “Assets and liabilities measured at fair value on a recurring basis” above.

With reference to the classification of loans to customers and banks within the fair value hierarchy, it should be noted that customers are classified in level 3 and banks in level 2, except in the case of non-performing exposures.

Non-financial assets measured at fair value on a recurring basis

For the Group, non-financial assets measured at fair value on a recurring basis consist of its owned real estate assets.

Fair value of owned real estate assets

The Group applies the method of re-determination of value for the measurement of property assets used in the business pursuant to IAS 16 and of the fair value for investment properties pursuant to IAS 40, for measurement subsequent to the initial recognition.

Real estate valuation methodology

The revaluation method requires that the assets used in the business, whose fair value can be reliably measured, are recognised at a restated value, equal to their fair value at the date of the revaluation of value, net of depreciation and any losses for accumulated impairment.

For properties held for investment purposes, the Group has chosen the fair value measurement method, according to which, after initial recognition, all investment properties are measured at fair value.

The fair value of the properties, whether used in the business or held for investment purposes, is determined through the use of specific appraisals prepared by independent qualified companies operating in the specific sector able to provide property valuations on the basis of the RICS Valuation standards. These standards ensure that:

- the fair value is determined consistently with the indications of international accounting standard IFRS 13, that is it reflects the estimated amount for which an asset or liability is sold or purchased, on the valuation date, by a seller and a buyer both willing, and not linked by a special relationship, at competitive conditions, after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion;
- the experts have professional, ethical and independence requirements in line with the provisions of international and European standards.

For properties of a significant value, i.e. with a book value of more than EUR 8 mln, the appraisals are carried out in “full” mode, i.e. with an inspection of the property as well as a detailed analysis of the available documentation. For the remaining properties it is however possible to use “full” appraisals based on cluster and thresholds internally established, or alternatively, to make use of “desktop” appraisals, which are carried out without onsite inspection, only by reviewing the documentation. The Group has decided to carry out “full” appraisals on at least 50% of the overall book value of the properties.

The valuation methodologies applied by the appraiser are aligned with international IVS (International Valuation Standards) practices and with what is set forth in the Red Book of the Royal Institute of Chartered Surveyors (RICS). They refer to the following situations:



- Discounted cash flow (DCF) method;
- Market comparison approach (MCA);
- Transformation method with DCF analysis

The discounted cash flow method is based on the net cash flows that can be generated within a period of time and is the best estimation approach to adequately represent the market value of assets likely to be acquired as properties, both for direct use (instrumental use), and for investment purposes, as a source of ongoing income from rents. The assumption underlying the cash flow approach is that a rational buyer is not willing to pay to buy the asset a price higher than the current value of the economic benefits that the asset will provide in the future. The value of the asset, therefore, is a function of the economic benefits that will be generated by it. The Market Value is calculated as the sum of the discounted net revenues and the discounted net sales value at the valuation date. The net revenues are calculated based on the gross revenues less the operating costs related to the property. The gross revenues are calculated by indexing the rents received for the leased portions, or the market rents for the vacant portions, considering for the calculation of the DCF a time period between 10 and 20 years according to the intended use of the property and the residual duration of outstanding lease contracts. The net sales value is obtained by capitalising in perpetuity the operating income for the last period of the DCF using a capitalization rate (cap rate) in line with average market yields, from which the sales commission is then deducted. After finding the annual net revenues and the net sales value, the discounted values at the beginning of the first period are calculated by using an appropriate discount rate, suitable for each individual property. The main input data are: i) revenues (contractual rents, market rents); ii) vacancy and take up period, contractual stepup, etc.; iii) costs (administration, property tax, insurance premium, tenant improvements, lease and sales commission, etc.) and iv) interest rates (WACC, exit cap rate).

The market comparison approach provides an estimate of the value of the asset through the comparison with properties recently sold or currently on sale on the market that are comparable in terms of type, construction and location. The value of the property is therefore found by taking into account the sale prices or rents, updated as at the valuation date and obtained from an in-depth market survey, and then making specific adjustments as deemed appropriate given the intrinsic and extrinsic characteristics of the property in question, as well as any other factor deemed relevant, thus reducing the risk that these price do not reflect the latest macroeconomic conditions. The market comparison approach is usually recommended for residential properties for which it is easy to find transactions on comparable assets, therefore, taking into account the type of real estate properties that constitutes the Group's real estate assets, it was only marginally used.

The transformation method with DCF analysis is used in the case of assets that can be transformed or are already being transformed. The value is given by the difference between the most likely market value of the transformed asset and the sum of all the most likely costs of the factors involved in the transformation of the asset itself. The transformation method is often used to express an opinion on the economic benefit of initiatives to renovate existing assets, but it can also be used for an appraisal aimed at providing an estimate value valid for the majority of market operators. This estimation method is based on the discounting, at the valuation date, of the cash flows generated by the real estate transaction over a time period corresponding to its duration, converting the cash flows allocated at the time of their generation into the Net Present Value (NPV) of the real estate transaction through a financial discounting procedure. The model simulates the assumptions of a typical investor, which aims at receiving a satisfactory economic return on the investment. In particular, the model is articulated in a cash flow scheme with income (revenues) and expenses (costs) relating to the real estate transformation project. Expenses include costs for construction, demolition, urbanisation, design, site management and other costs; the income includes sales made for each sector of intended use (residential, industrial, workshops, sales, tertiary and services). The financial model does not consider VAT and other taxes. The main input data are i) the revenues generated from the sale of buildings built or renovated; ii) the costs (construction costs, urbanisation costs, planning and site management costs, sales commissions, etc., and iii) interest rates (WACC).

The valuation approach is defined considering for each property:

- the breakdown in terms of property unit;
- the current intended use of each property, assuming this represents the highest and best use, and considering alternative uses of the properties where this corresponds to market expectations;
- the nature of the property, whether for business use, investment use, mixed.

Depending on the intended use, the occupation status and the nature of the asset, the valuation method deemed most appropriate by the appraiser is applied for each property unit and the value is divided between business use and investment portions.



The properties are valued individually at the level of the single property without considering any discount or premium that can be negotiated in a commercial negotiation phase if all, or part of the portfolio, is sold en bloc, both by lots and entirely.

The valuation of the properties is significantly based on estimates that are characterised in nature by elements of judgement and subjectivity, the Group's entire property assets are classified at level 3 in the fair value hierarchy.

Valuation frequency

For investment property it is necessary to recalculate the fair value, on an annual basis at least, in accordance with IAS 40.

For property for business use, IAS 16 provides that value re-determinations must be carried out regularly in order to ensure that the book value does not differ significantly from the fair value at the reporting date. The Group has decided to carry out the revaluation, in the same way as for IAS 40 properties, at least once a year.

On the basis of the aforementioned rules, as at 31 December 2023, the Group updated the appraisals for all real estate assets.

Sensitivity analysis of non-financial instruments

Like financial instruments, non-financial assets and liabilities measured at level 3 fair value are also subjected to sensitivity analysis for which, based on the valuation model used to determine fair value, execution is possible and whose results are significant.

It should be noted that, the sensitivity analysis was performed identifying the most significant variables within the valuation model used for the different classes of properties, represented by the discounted cash flow method. In particular, market fees for properties used in the business, and the "exit value" for properties held for investment purposes. Considering a change equal to +/- 5% of the aforementioned variables, the analysis showed an average deviation in the fair value of the properties of approximately -5.2% and +4.8%.

A.4.2 Measurement processes and sensitivity

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

The column "Other financial assets mandatorily measured at fair value" in the category "Debt securities" measured with the Discounted Cash Flow method includes both the mezzanine and the junior tranches referring to the securitisation of a portfolio of loans classified as bad loans called "Siena NPL" for EUR 36.9 mln. The change in the discount rate (+/-1%) and forecast distributions (+/-10%) would result in a range of values of EUR 34.6 – 36.5 mln and EUR 42.6 – 27.7 mln respectively.

Also worth mentioning in this category are approximately EUR 19.2 mln relating to some equity investments acquired by the Group under credit restructuring agreements which the sensitivity analysis was not carried out as the unit value of the individual exposures is below the minimum materiality threshold established by the Group.

The "Other financial assets mandatorily measured at fair value" column also includes loans (EUR 123.3 mln) that are mandatorily measured at fair value. The unobservable parameters are Probability of Default (PD), Loss Given Default (LGD) and the different spreads for performing and non-performing assets. The change in these parameters, of 10%, 5%, 1% and 1%, respectively, would have an impact on fair value of approximately EUR -5 mln.

The majority of the UCITS units refers, for EUR 116.3 mln, to units of funds received in exchange for the sale of non-performing loans (Back2bonis, IDEA CCR I, II and Nuova Finanza, Clessidra and Efestò). The change in the discount rate (+/-1%) and forecasted distributions (+/-10%) would result in the following range of values: EUR 113.9 - 118.8 mln and EUR 127.9 - 104.5 mln respectively

The category of units of UCITS also contains the total of contributions, made from June 2016, to the Italia Recovery Fund (formerly Atlante due) for a book value of EUR 7.7 mln calculated on the basis of the latest available NAV.

Lastly, the UCITS category also includes private equity funds and closed-end real estate funds for EUR 58.0 mln for which it was not possible to carry out any quantitative analysis of the sensitivity of the fair value with respect



to the change in unobservable inputs, as the fair value is the result of a model whose inputs are specific to the entity being measured and for which the information necessary for a sensitivity analysis is not available.

The “Financial assets measured at fair value through other comprehensive income” accounting portfolio includes the equity investment in Bank of Italy (EUR 187.5 mln), measured using the Discounted Cash Flow method. The equity investment was measured with the methodology identified by the Committee of Experts in the document “Revaluation of shareholdings in the Bank of Italy”. This document not only details the valuation techniques adopted to reach the end result, but identified the following entity-specific parameters: the market beta, equity risk premium, and the cash flow base. The valuation of that equity investment is also confirmed in market transactions carried out in recent years by certain banks. The range of possible values that can be assigned to these parameters cause the following changes in value: roughly EUR -11 mln for every 100 bps increase in the equity risk premium, roughly EUR -18 mln for every 10 p.p. increase in the market beta, and roughly EUR -18 mln for every 10 p.p. increase in the cash flow base.

This category also includes equity securities representing all equity investments designated at fair value that could not be measured according to a market-based model. These positions amount to approximately EUR 29.8 mln. For these positions, a sensitivity analysis was not carried out for the same reasons indicated above with reference to UCITS.

Financial liabilities held for trading include financial derivatives (approximately EUR 2.9 mln) included for the correct management of the lapse risk inherent in commission flows deriving from the placement of certain unit-linked policies. For these positions no sensitivity analysis was carried out as they are not considered material by the Group.

A.4.3 Fair value hierarchy

For the purposes of completing the disclosure on transfers between levels provided in paragraphs A.4.5.1, A.4.5.2 and A.4.5.3 below, it should be noted that, for securities held at 31 December 2023 and which had a different fair value level with respect to the one assigned at 1 January 2023, it was assumed that the transfer between the levels took place with reference to the balances held at the beginning of the reference period.

A.4.4 Other information

With reference to par. 93 letter (i) of IFRS 13, the Group does not hold any non-financial assets measured at *fair value* whose current use does not represent its best possible use.

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



Quantitative Information

A.4.5 Fair value hierarchy

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

Asset and liabilities measured at fair value	31 12 2023				31 12 2022			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
1. Financial assets measured at fair value through profit or loss of which:	3,525,446	2,360,157	365,960	6,251,563	3,551,859	2,803,340	401,488	6,756,687
a) Financial asset held for trading	3,525,258	2,357,546	-	5,882,804	3,551,748	2,747,646	-	6,299,394
c) other financial assets mandatorily measured at fair value	188	2,611	365,960	368,759	111	55,694	401,488	457,293
2. Financial assets measured at fair value through other comprehensive income	1,729,670	530,744	216,842	2,477,256	3,578,483	550,112	223,733	4,352,328
3. Hedging derivative	-	704,125	-	704,125	-	1,077,095	-	1,077,095
4. Property, plant and equipment	-	-	1,816,931	1,816,931	-	-	1,921,634	1,921,634
Total assets	5,255,116	3,595,026	2,399,733	11,249,875	7,130,342	4,430,547	2,546,855	14,107,744
1. Financial liabilities held for trading	1,823,197	1,028,656	2,868	2,854,721	2,567,184	1,417,302	4,031	3,988,517
2. Financial liabilities designated at fair value	-	111,325	-	111,325	-	97,027	-	97,027
3. Hedging derivative	-	330,193	-	330,193	-	301,568	-	301,568
Total liabilities	1,823,197	1,470,174	2,868	3,296,239	2,567,184	1,815,897	4,031	4,387,112

For information on financial instruments classified in level 3, please refer to the above.

The fair value of some financial assets, particularly the bonds for approx. EUR 5.6 mln, worsened during the financial 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.

With reference to the financial instruments that recorded an improvement in fair value level, moving from level 2 to level 1 of the hierarchy, it should be noted that this trend affected bonds measured at fair value for approximately EUR 20.8 mln. The change in the fair value level during the financial year is essentially linked to the improvement in the securities' liquidity conditions (measured in terms of bid-ask spread of the listed price), which allowed the level transfer in accordance with the Group's policy on the valuation of financial instruments.

With reference to the UCITS units valued on the basis of the NAV communicated by the manager, the assessments carried out by the competent functions on the assets underlying the funds themselves resulted, in accordance with the provisions of the group policy on valuation of financial instruments, in a decline from level 2 to level 3 for approximately EUR 53.1 mln.



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

31 12 2023

	Financial assets measured at fair value through profit or loss		Financial assets measured at fair value through other comprehensive income	Property, plant and equipment
	Total	of which: c) financial assets mandatorily measured at fair value		
1. Opening balance	401,488	401,488	223,733	1,921,634
2. Increases	100,435	100,435	1,430	38,719
2.1 Purchase	-	-	-	-
2.2 Profit charged to:	19,996	19,996	246	12,263
2.2.1 Income statement	19,996	19,996	-	4,133
<i>- of which capital gains</i>	<i>12,471</i>	<i>12,471</i>	-	<i>4,133</i>
2.2.2 Equity	-	-	246	8,130
2.3 Transfers from other levels	53,059	53,059	-	-
2.4 Other increases	27,380	27,380	1,184	26,456
3. Decreases	135,963	135,963	8,321	143,422
3.1 Sales	1,563	1,563	3,473	805
3.2 Repayments	101,857	101,857	-	-
3.3 Losses charged to:	12,919	12,919	2,859	96,813
3.3.1 Income statement	12,919	12,919	-	57,700
<i>- of which capital losses</i>	<i>10,910</i>	<i>10,910</i>	-	<i>57,700</i>
3.3.2 Equity	-	-	2,859	39,113
3.4 Transfers to other levels	-	-	-	-
3.5 Other decreases	19,624	19,624	1,989	45,804
4. Closing balance	365,960	365,960	216,842	1,816,931

Following are the most significant amounts reported in the column “Other financial assets mandatorily measured at fair value” under item:

- “2.2.1 Profits charged to the income statement” of approximately EUR 20.0 mln refer for EUR 7.1 mln to realised gains from the redemption of certain notes of securitisation transactions in which the Group participate. Approximately EUR 12.5 mln are also included as capital gains from valuation relating mainly to revaluations of loans (EUR 1.8 mln), and some UCITS units (EUR 8.7 mln);
- “2.3 Transfers from other levels” of EUR 53.1 mln are attributable to UCITS units (valued on the basis of the NAV) that were downgraded from level 2 to level 3;
- “2.4 Other increases” equal to EUR 27.4 mln include approximately EUR 21.3 mln in positions that during the year were reclassified from the loan portfolio at amortised cost to the portfolio of other assets mandatorily measured at fair value due to substantial credit changes not consistent with the SPPI test, as well as new disbursements;
- “3.1 Sales”, equal to EUR 1.5 mln, refer to the sale of some SFPs issued in connection with composition proceedings in which the Group participated;
- “3.2 Repayments” for EUR 101.8 mln include approximately EUR 57.9 mln for the partial redemption of securitisation notes in which the Group took part, around EUR 22.9 mln for the partial repayment of UCITS and some equity financial instruments and lastly, EUR 21.0 mln for the repayments on credit positions.
- “3.3.1 Losses charged to the income statement” equal to EUR 12.9 mln are attributable for EUR 10.9 mln to write-downs carried out during the year, of which: EUR 2.3 mln to non-performing loans, EUR 3.9 mln to the Siena NPL securitisation transaction and EUR 4.7 mln to write-downs of UCITS units held by the Group;
- “3.5 Other decreases” for approximately EUR 19.6 mln refer to credit positions reclassified in the portfolio at amortised cost following the termination of previous contractual clauses not consistent with the SPPI test that had led to their classification as others assets mandatorily measured at fair value.



Property, plant and equipment measured at fair value on a recurring basis consisted of property assets for business and for investment use. The main amounts reported are shown below:

- “2.2.1 Profit charged to the income statement of which capital gains” amounting to approximately EUR 4.1 mln, refer for EUR 2.8 mln to write-backs on properties classified under IAS 16 that were previously written-down in the Income Statement, and for EUR 1.3 mln to revaluations of properties classified under IAS 40 following appraisals carried out as at 31 December 2023;
- “2.2.2 Equity”, equal to approximately EUR 8.1 mln, refers entirely to revaluations carried out in 2023 on properties classified under IAS 16;
- “2.4 Other increases” of approx. EUR 26.5 mln refer for EUR 25.9 mln to improvements and incremental expenses incurred on owned assets;
- “3.1-Sales” in the amount of about EUR 0.8 mln refer to the sale of some IAS 40-listed properties finalised during the year;
- “3.3.1 Losses charged to the income statement - of which capital losses” amounted to approximately EUR 57.7 mln, with EUR 26.4 mln and EUR 31.3 mln related to properties classified under IAS 40 and IAS 16 respectively;
- “3.3.2 Losses charged to equity” equal to approximately EUR 39.1 mln refer entirely to write-downs made on properties classified under IAS 16 subject to a previous revaluation recognised in the OCI reserve;
- “3.5 Other decreases” equal to approximately EUR 45.8 mln mainly refer to the depreciation charge related to properties classified under IAS 16 in the amount of EUR 27.3 mln and to properties transferred during the year to fixed assets held for disposal for EUR 12.4 mln.

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

31 12 2023

	Financial liabilities held for trading
1. Opening balance	4,031
2. Increases	2,038
2.1 Issues	-
2.2 Losses charged to	2,038
2.2.1 Profit and Loss	2,038
- of which capital losses	-
2.2.2 Equity	X
2.3 Transfers from other levels	-
2.4 Other increases	-
3. Decreases	3,201
3.1 Redemptions	-
3.2 Repurchases	-
3.3 Profit charged to:	3,201
3.3.1 Profit and Loss	3,201
- of which capital gains	1,163
3.3.2 Equity	X
3.4 Transfers from other levels	-
3.5 Other decreases	-
4. Closing balance	2,868

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 2023				
	Book value	Level 1	Level 2	Level 3	Total Fair value
1. Financial assets measured at amortised cost	90,544,417	8,259,192	11,183,842	70,644,224	90,087,258
3. Non-current assets held for sale and disposal groups	76,232	-	-	76,232	76,232
Total assets	90,620,649	8,259,192	11,183,842	70,720,456	90,163,490
1. Financial liabilities measured at amortised cost	105,026,527	8,715,149	96,468,826	-	105,183,975
Total liabilities	105,026,527	8,715,149	96,468,826	-	105,183,975

Financial asset/liabilities not measured at fair value or measured at fair value on a non -recurring basis	31 12 2022				
	Book value	Level 1	Level 2	Level 3	Total Fair value
1. Financial assets measured at amortised cost	88,464,613	6,621,149	8,165,675	71,710,086	86,496,910
3. Non-current assets held for sale and disposal groups	65,497	-	-	65,497	65,497
Total assets	88,530,110	6,621,149	8,165,675	71,775,583	86,562,407
1, Financial liabilities measured at amortised cost	103,283,390	4,245,320	98,751,752	-	102,997,072
Total liabilities	103,283,390	4,245,320	98,751,752	-	102,997,072

For details of the valuation criteria for assets and liabilities measured at fair value on a non-recurring basis, reference should be made to the information provided in the corresponding qualitative section.

In regard to assets under disposal, only the assets measured at fair value or at fair value less disposal costs were indicated.

A.5 Information on “day one profit/loss”

The Group did not recognise “day one profits/losses” on financial instruments pursuant to B.5.1.2A of IFRS 9; therefore, no disclosure is provided pursuant to paragraph 28 of IFRS 7 and other related IAS/IFRS paragraphs.



Part B – Information on the consolidated balance sheet

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ASSETS

Section 1- Cash and cash equivalents - Item 10

1.1 Cash and cash equivalents: breakdown

	Total 31 12 2023	Total 31 12 2022
a) Cash	708,220	695,933
b) Demand deposits with central banks	11,907,467	10,475,671
c) Demand deposits with banks	1,701,590	1,366,974
Total	14,317,277	12,538,578

The amount of approximately EUR 11,907.5 mln recorded in line b) Demand deposits with central banks refers almost entirely to two sight deposits with the ECB. This started in September 2022 following the monetary policy decision of 8 September 2022 in which the Governing Council of the ECB, in light of the above-zero increase in the central bank deposit rate, suspended the two-tier system for the remuneration of excess reserves.

The line “Current account and demand deposits with central banks” does not include the compulsory reserve, which is shown in item 40 “Financial assets measured at amortised cost”, under loans to banks.



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

2.1 Financial assets held for trading: breakdown

Items	Total 31 12 2023				Total 31 12 2022			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
A. Balance-sheet assets								
1. Debt securities	3,332,505	290,363	-	3,622,868	3,393,287	432,516	-	3,825,803
1.1 Structured securities	6,398	52,425	-	58,823	18,316	55,562	-	73,878
1.2 Other debt securities	3,326,107	237,938	-	3,564,045	3,374,971	376,954	-	3,751,925
2. Equity instruments	83,546	119	-	83,665	70,958	719	-	71,677
3. Units of UCITS	10	-	-	104,041	65,437	-	-	65,437
4. Loans	-	-	-	-	-	-	-	-
4.1 Repurchase agreements	-	-	-	-	-	-	-	-
4.2 Others	-	-	-	-	-	-	-	-
Total (A)	3,520,092	290,482	-	3,810,574	3,529,682	433,235	-	3,962,917
B. Derivatives								
1. Financial derivatives:	5,166	2,067,064	-	2,072,230	22,066	2,314,411	-	2,336,477
1.1 held for trading	5,166	2,000,653	-	2,005,819	22,066	2,286,696	-	2,308,762
1.2 fair value option	-	66,411	-	66,411	-	27,715	-	27,715
1.3 Others	-	-	-	-	-	-	-	-
2. Credit derivatives:	-	-	-	-	-	-	-	-
2.1 held for trading	-	-	-	-	-	-	-	-
2.2 fair value option	-	-	-	-	-	-	-	-
2.3 Others	-	-	-	-	-	-	-	-
Total (B)	5,166	2,067,064	-	2,072,230	22,066	2,314,411	-	2,336,477
Total (A+B)	3,525,258	2,357,546	-	5,882,804	3,551,748	2,747,646	0	6,299,394

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

As a result of the provisions set out in IFRS 9 with regard to the derecognition of financial assets, lines 1.1 Structured securities and 1.2 Other debt securities of the item “Cash assets” also include debt securities pledged in repos and securities lending transactions carried out in respect of own securities posted to the trading book.

The amount of EUR 237.9 mln (EUR 376.9 mln as at 31 December 2022), recognised in line “1.2 Other debt securities”, in the level 2 column, includes senior and mezzanine exposures assumed by the Group with reference to third-party securitisation transactions amounting to EUR 23.3 mln (EUR 110.2 mln as at 31 December 2022) and EUR 12.3 mln (EUR 55.9 mln as at 31 December 2022), respectively.

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

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



2.1 a Breakdown of debt securities: structured securities

Structured debt securities	Total 31 12 2023	Total 31 12 2022
Index Linked	19,510	16,301
Credit linked notes	7,245	7,091
Cap Floater	26,640	32,616
Reverse Floater	5,428	17,870
Total	58,823	73,878

The table adds details to line “A.1.1 Structured securities” of table 2.1 above. As at 31 December 2023, structured debt securities amounted to EUR 58.8 mln, compared to EUR 73.9 mln in the previous year. The main changes were recorded in the category “Reverse Floater” category.

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

Items/Amounts	Total 31 12 2023	Total 31 12 2022
A. Balance sheet assets		
1. Debt securities	3,622,868	3,825,803
a) Central banks	-	-
b) Public entities	3,197,425	3,399,814
c) Banks	181,166	107,101
d) Other financial companies	183,408	309,282
of which: insurance companies	9,055	8,641
e) Non-financial companies	60,869	9,606
2. Equity instruments	83,665	71,677
a) Banks	1,875	1,621
b) Other financial companies	36,919	17,310
of which: insurance companies	36,734	16,576
c) Non-financial companies	44,871	52,746
d) Other issuers:	-	-
3. Units of UCITS	104,041	65,437
4. Loans	-	-
Total (A)	3,810,574	3,962,917
B. Derivatives	-	-
a) Central counterparties	-	-
b) Others	2,072,230	2,336,477
Total (B)	2,072,230	2,336,477
Total (A+B)	5,882,804	6,299,394

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

As for derivatives, it should be noted that the positive fair value of derivatives with customers includes approx. EUR 48.7 mln from balanced trading aimed at providing financial protection to customers of the Group's network. The remaining amount was generated from transactions with financial market participants classified as customers pursuant to the above classification criteria set by the Bank of Italy.



The following table adds details to line “A.3. Units of UCITS” of table 2.2 above.

Categories/Amounts	Total	Total
	31 12 2023	31 12 2022
Exchange Traded Funds (ETF)	97,872	65,273
Equity	6,156	2
Bonds	-	149
Others	13	13
Total	104,041	65,437

2.3 Financial assets measured at fair value: breakdown

2.4 Financial assets measured at fair value: breakdown by debtor/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 mandatorily measured at fair value: breakdown

Items	Total 31 12 2023				Total 31 12 2022			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
1. Debt securities	-	2,611	58,826	61,437	-	2,514	110,901	113,415
1.1 Structured securities	-	-	-	-	-	-	-	-
1.2 Other debt securities	-	2,611	58,826	61,437	-	2,514	110,901	113,415
2. Equity instruments	188	-	1,839	2,027	112	1	1,840	1,953
3. Units of UCITS	-	-	182,011	182,011	-	53,179	146,212	199,391
4. Loans	-	-	123,284	123,284	-	-	142,534	142,534
4.1 Repurchase agreements	-	-	-	-	-	-	-	-
4.2 Others	-	-	123,284	123,284	-	-	142,534	142,534
Total	188	2,611	365,960	368,759	112	55,694	401,487	457,293

Line 1.2 “Other debt securities” includes EUR 21.9 mln attributable to SFPs issued as part of compositions with creditors in which the Parent Company took part. This also includes EUR 37.5 mln of exposures referable for EUR 37.0 mln (EUR 34.6 mln as at 31 December 2022) to the securitisation of a bad loans portfolio of the MPS Group, of which EUR 36.4 mln (EUR 34.0 mln as at 31 December 2022) referable to the mezzanine tranche and EUR 0.6 mln (EUR 0.6 mln as at 31 December 2022) relating to the junior tranche, and EUR 0.5 mln (EUR 51.7 mln as at 31 December 2022) relating to the junior tranche of a securitisation transaction of non-performing loans also originated by third-party banks, the decrease of which is attributable to the repayments made by the special purpose vehicle during the financial year 2023.

Line 3 “Units of UCITS” includes, in correspondence with level 3, UCITS units acquired in exchange for the sale of NPE loans for EUR 116.3 mln (EUR 129.8 mln as at 31 December 2022) and the units in the Fondo Atlante for EUR 7.7 mln (EUR 8.4 mln as at 31 December 2022).

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 mandatorily measured at fair value: breakdown by debtor/issuer**

Voci/Valori	Total 31 12 2023	Total 31 12 2022
1. Equity instruments	2,027	1,953
<i>of which: banks</i>	-	-
<i>of which: other financial companies</i>	1,133	1,123
<i>of which: non-financial companies</i>	894	830
2. Debt securities	61,437	113,415
a) Central Banks	-	-
b) Public Entities	-	-
c) Banks	-	-
d) Other financial companies	42,788	91,537
<i>of which: insurance companies</i>	-	-
e) Non-financial companies	18,649	21,878
3. Units of UCITS	182,011	199,391
4. Loans	123,284	142,534
a) Central Banks	-	-
b) Public Entities	-	-
c) Banks	-	-
d) Other financial companies	-	-
<i>of which: insurance companies</i>	-	-
e) Non-financial companies	106,673	123,406
f) Families	16,611	19,128
Total	368,759	457,293

The main cumulative losses relating to equity securities of evidently poor credit quality referring to previous financial years are Compagnia Investimento e Sviluppo (EUR 3.8 mln), Newcolle S.r.l. (EUR 2.3 mln), Porto industriale Livorno (EUR 1.9 mln). The write-downs of equity instruments of clearly poor credit quality, made by the Group during the course of the year are of irrelevant amount.

Provided below is the breakdown by main categories of UCITS.

Categories/Amounts	Total 31 12 2023	Total 31 12 2022
Hedge Funds	23	3,857
Private equity	57,510	57,801
Real estate	8,216	7,923
Non Performing Exposures	116,262	129,810
Total	182,011	199,391

For the disclosure on mutual funds acquired as part of the transfer of loans included in the previous table under “NPE loans”, please refer to the specific paragraph in Part E of these Notes to the Financial Statements (Subsection E “Transfers” point C. Financial assets sold and fully derecognised”).



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 2023				Total 31 12 2022			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
1. Debt securities	1,729,670	520,213	-	2,249,883	3,578,483	519,157	-	4,097,640
1.1 Structured securities	-	-	-	-	-	-	-	-
1.2 Other debt securities	1,729,670	520,213	-	2,249,883	3,578,483	519,157	-	4,097,640
2. Equity instruments	-	10,530	216,843	227,373	-	30,955	223,733	254,688
3. Loans	-	-	-	-	-	-	-	-
Total	1,729,670	530,743	216,843	2,477,256	3,578,483	550,112	223,733	4,352,328

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.

The line “1.2 Other Debt Securities” totalling EUR 2,249.9 mln – of which EUR 295.3 mln (EUR 987.4 mln as of 31 December 2022) subject to specific fair value hedging entirely against interest rate risk– mainly include Italian government bonds in the amount of around EUR 1,624.6 mln, down from EUR 3,385.2 mln as at 31 December 2022 due to the maturity of some bonds during 2023. The line also includes EUR 5.0 mln (EUR 15.2 mln as at 31 December 2022) of exposures relating to senior notes of securitisation transactions originated by third parties

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

At the reporting date, the aggregate does not include equity securities arising from the recovery of impaired financial assets.



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

Items/Amounts	Total 31 12 2023	Total 31 12 2022
1. Debt securities	2,249,883	4,097,640
a) Central banks	-	-
b) Public entities	1,762,611	3,532,331
c) Banks	429,543	500,269
d) Other financial companies	14,354	39,526
<i>of which insurance companies</i>	-	-
e) Non-financial companies	43,375	25,514
2. Equity instruments	227,373	254,688
a) Banks	200,966	201,110
b) Other issuers:	26,407	53,578
- Other financial companies	17,770	42,160
<i>of which insurance companies</i>	-	-
- Non-financial companies	8,622	11,404
- Others	14	14
3. Loans	-	-
Total	2,477,256	4,352,328

The main cumulative losses relating to equity securities of evidently poor credit quality refer to the investee Restart S.r.l. and were fully recognised in previous financial years, for an amount of EUR 0.5 mln.

The write-downs of equity instruments of clearly poor credit quality, made by the Group during the course of the financial year are of irrelevant amount.



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

	Gross exposure					Value adjustments				Total Partial write-off (*)
	Stage 1		Stage 2	Stage 3	Purchased or originated credit impaired financial assets	Stage 1	Stage 2	Stage 3	Purchased or originated credit impaired financial assets	
		<i>of which: low credit risk instruments</i>								
Debt securities	2,237,398	2,106,236	14,645	-	-	1,899	261	-	-	-
Loans	-	-	-	-	-	-	-	-	-	-
Total 31 12 2023	2,237,398	2,106,236	14,645	-	-	1,899	261	-	-	-
Total 31 12 2022	4,077,860	3,817,750	23,497	-	-	3,256	461	-	-	-

* Value to be presented for disclosure purposes



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 2023							
	Book value			Total	Fair value			
	Stage 1 and Stage 2	Stage 3	of which: impaired or originated impaired financial assets		L1	L2	L3	Total
A. Loans to central banks	526,753	-	-	526,753	-	526,753	-	526,753
1. Time deposits	25,001	-	-	25,001	X	X	X	X
2. Compulsory reserve	501,752	-	-	501,752	X	X	X	X
3. Reverse repurchase agreements	-	-	-	-	X	X	X	X
4. Others	-	-	-	-	X	X	X	X
B. Loans to bank	3,263,747	398	-	3,264,145	2,924	3,194,214	398	3,197,536
1. Loans	2,581,828	398	-	2,582,226	-	2,582,841	398	2,583,239
1.1 Current accounts and demand deposits	-	-	-	-	X	X	X	X
1.2 Time deposits	17,136	-	-	17,136	X	X	X	X
1.3 Other loans	2,564,692	398	-	2,565,090	X	X	X	X
- Reverse repurchase agreements	1,030,587	-	-	1,030,587	X	X	X	X
- Finance leases	-	-	-	-	X	X	X	X
- Others	1,534,105	398	-	1,534,503	X	X	X	X
2. Debt securities	681,919	-	-	681,919	2,924	611,373	-	614,297
2.1 Structured securities	-	-	-	-	-	-	-	-
2.2 Other debt securities	681,919	-	-	681,919	2,924	611,373	-	614,297
Total	3,790,500	398	-	3,790,898	2,924	3,720,967	398	3,724,289

The line “Loans to Central banks 2. Compulsory reserve” includes the balance of the compulsory reserve which, at the end of the financial year, amounted to EUR 501.7 mln (EUR 524.1 mln as at 31 December 2022). It should be noted that, in accordance with regulations on average maintenance levels, the end-of-period balance of the compulsory reserve may be subject to changes, also substantial, in relation to the Group’s contingent treasury requirements.

The item “Loans to banks, 1.3 Other loans – Other”, totalling EUR 1,534.5 mln, includes security deposits of approximately EUR 1,299.4 mln.

Note that the line “B.2.2 Other debt securities” includes EUR 657.0 mln (EUR 652.7 mln as at 31 December 2022) of assets subject to specific fair value hedging for interest rate risk.

At the reporting date of this financial statements, as in previous financial year, the aggregate does not include the Group’s senior, mezzanine and junior exposures with reference to own and third-party securitisation transactions.



Type of transaction/Amount	Total 31 12 2022							
	Book value			Total	Fair value			
	Stage 1 and Stage 2	Stage 3	Purchased or originated impaired financial assets		L1	L2	L3	Total
A. Loans to central banks	628,169	-	-	628,169	-	628,195	-	628,195
1. Time deposits	25,001	-	-	25,001	X	X	X	X
2. Compulsory reserve	524,149	-	-	524,149	X	X	X	X
3. Reverse repurchase agreements	79,019	-	-	79,019	X	X	X	X
4. Others	-	-	-	-	X	X	X	X
B. Loans to bank	2,627,488	-	-	2,627,488	2,688	2,564,410	-	2,567,098
1. Loans	1,950,068	-	-	1,950,068	-	1,946,457	-	1,946,457
1.1 Current accounts	-	-	-	-	X	X	X	X
1.2 Time deposits	10,016	-	-	10,016	X	X	X	X
1.3 Other loans	1,940,052	-	-	1,940,052	X	X	X	X
- Reverse repurchase agreements	527,539	-	-	527,539	X	X	X	X
- Finance leases	-	-	-	-	X	X	X	X
- Others	1,412,513	-	-	1,412,513	X	X	X	X
2. Debt securities	677,420	-	-	677,420	2,688	617,953	-	620,641
2.1 Structured securities	-	-	-	-	-	-	-	-
2.2 Other debt securities	677,420	-	-	677,420	2,688	617,953	-	620,641
Total	3,255,657	-	-	3,255,657	2,688	3,192,605	-	3,195,293



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

Type of transaction/Amount	31 12 2023							
	Book value				Fair value			
	Stage 1 and Stage 2	Stage 3	of which: impaired or originated impaired financial assets	Total	L1	L2	L3	Total
Loans	74,919,736	1,769,813	2,744	76,692,293	-	6,228,029	70,643,826	76,871,855
1.1. Current accounts	2,755,274	66,165	228	2,821,667	X	X	X	X
1.2. Reverse repurchase agreements	6,229,986	-	-	6,229,986	X	X	X	X
1.3. Mortgage	51,837,630	1,406,956	2,212	53,246,798	X	X	X	X
1.4. Credit cards, personal loans and fifth-of-salary backed loans	1,130,474	6,030	-	1,136,504	X	X	X	X
1.5. Finance lease	2,873,415	172,868	-	3,046,283	X	X	X	X
1.6. Factoring	1,776,975	12,618	-	1,789,593	X	X	X	X
1.7. Other transactiones	8,315,982	105,176	304	8,421,462	X	X	X	X
of which: operating loans	15,198	76	-	15,274	X	X	X	X
of which: leased assets under construction	192,144	1,874	-	194,018	X	X	X	X
Debt securities	10,061,226	-	-	10,061,226	8,256,268	1,234,846	-	9,491,114
2.1. Structured securities	-	-	-	-	-	-	-	-
2.2. Other debt securities	10,061,226	-	-	10,061,226	8,256,268	1,234,846	-	9,491,114
Total	84,980,962	1,769,813	2,744	86,753,519	8,256,268	7,462,875	70,643,826	86,362,969

“Loans to customers” also includes operating receivables for EUR 15.3 mln (EUR 22.8 mln as at 31 December 2022) - other than those connected with the payment for the supply of non-financial goods and services, posted to Asset item 150 “Other assets”, subject to the provisions pursuant to IFRS 9, paragraph 5.5.15 a) i).

The column “Purchased or originated credit impaired” for EUR 2.7 mln (EUR 2.2 mln as at 31 December 2022) is almost entirely made up of assets originating from restructuring agreements on non-performing positions.

Line “2.2 Other debt securities” equal to EUR 10,061.2 mln comprises mainly Italian government bonds in the amount of EUR 7,389.6 mln (EUR 6,287.1 mln as at 31 December 2022). In addition, EUR 1,003.9 mln (EUR 1,261.1 mln as at 31 December 2022) of the senior notes pertaining to the securitisation transaction of the MPS Group’s bad loan portfolio, finalised in the first half of 2018. The line also includes bonds not listed in active markets issued mainly by local government bodies, e.g. municipal bonds (it.: Buoni Ordinari Comunali, BOC). Lastly, this includes EUR 3,885.2 mln (EUR 3,541.9 mln as at 31 December 2022) of securities subject to fair value micro-hedging for interest rate risk.

“Loans to customers” include loans disbursed with funds made available by the Government or by other public institutions, with the Group adopting partial or total risk. These funds are managed under the agreements signed by the Group with Cassa Depositi e Prestiti (hereinafter CDP), in direct cooperation with ABI, and with regional financial institutions. In particular, the Group adhered to the agreements specifically structured by ABI and CDP to support the business sector, to support private individuals and in favour of the territory for natural disasters. Except for the latter agreement, whose subsidised loans are backed by State guarantee, the loans disbursed by the Group are characterised by conditions released from the CDP funding, subject to independent negotiation between the parties, and are mandatorily assigned as collateral to CDP.

Conversely, with regard to management of resources made available through regional or national measures, the Group’s operations refer to specific agreements stipulated by the Bank with the regional financial institutions, such as Veneto Sviluppo, Finlombarda, Finpiemonte and Puglia Sviluppo, or other regional fund managers (Artigiancredito per il Fondo Multiscopo of the Emilia Romagna region), or with CDP regarding alternative instruments such as the so-called “Rotation Funds”. The resources are intended to encourage and support companies operating in certain areas and in specific economic sectors. These loans are generally disbursed with part of the funding made available with public funds and part with the Bank’s own resources (co-financing). The funding with public funds varies according to the initiative to be financed: the percentage is defined by specific Regional Laws or Resolutions and, as a rule, integration with the Bank’s own resources is envisaged up to the total coverage of the expenditure.



Finally, it should be noted that, in line with the Bank of Italy communication of the Bank of Italy of 14 March 2023 “Update of the provisions of Circular no. 262 - Bank financial statements: layouts and rules for compilation - concerning the impacts of COVID-19 and of the measures to support the economy”, the Group has provided a total of state-guaranteed loans (in application of the Law Decree no. 23, “Liquidity”, of 8 April 2020) for an amount of EUR 11.5 bn, with a book value of EUR 7,064.2 mln as at 31 December 2023 (EUR 9,633.7 mln as at 31 December 2022). With reference to the moratoria granted to support households and businesses for COVID-19, as at 31 December 2023, there were no longer any residual exposures (EUR 36.5 mln as at 31 December 2022).

Type of transaction/Amount	31 12 2022							
	Book value				Fair value			
	Stage 1 and Stage 2	Stage 3	<i>of which: impaired or originated impaired financial assets</i>	Total	L1	L2	L3	Total
Loans	74,411,569	1,708,948	2,243	76,122,760	-	3,459,921	71,710,086	75,170,007
1.1. Current accounts	2,882,264	84,896	252	2,967,412	X	X	X	X
1.2. Reverse repurchase agreements	3,482,940	-	-	3,482,940	X	X	X	X
1.3. Mortgage	54,540,669	1,238,914	1,717	55,781,300	X	X	X	X
1.4. Credit cards, personal loans and fifth-of-salary backed loans	786,515	5,608	-	792,123	X	X	X	X
1.5. Finance lease	2,932,265	222,850	-	3,155,115	X	X	X	X
1.6. Factoring	1,417,513	13,527	-	1,431,040	X	X	X	X
1.7. Other transactiones	8,369,403	143,153	274	8,512,830	X	X	X	X
<i>of which: operating loans</i>	22,483	326	-	22,809	X	X	X	X
<i>of which: leased assets under construction</i>	266,351	4,781	-	271,132	X	X	X	X
Debt securities	9,086,196	-	-	9,086,196	6,618,460	1,513,148	-	8,131,608
2.1. Structured securities	-	-	-	-	-	-	-	-
2.2. Other debt securities	9,086,196	-	-	9,086,196	6,618,460	1,513,148	-	8,131,608
Total	83,497,765	1,708,948	2,243	85,208,956	6,618,460	4,973,069	71,710,086	83,301,615



4.3 Financial assets measured at amortised cost: breakdown by debtor/issuer of loans to customers

Type of transaction/Amount	Total 31 12 2023			Total 31 12 2022		
	Stage 1 and Stage 2	Stage 3	Purchased or originated credit impaired financial assets	Stage 1 and Stage 2	Stage 3	Purchased or originated credit impaired financial assets
1. Debt securities	10,061,226	-	-	9,086,196	-	-
a) Public entities	8,742,542	-	-	7,501,108	-	-
b) Other financial companies	1,112,425	-	-	1,377,188	-	-
of which: insurance companies	62,407	-	-	62,451	-	-
c) Non-financial companies	206,259	-	-	207,900	-	-
2. Loans to	74,919,736	1,769,813	2,744	74,411,568	1,708,949	2,243
a) Public Entities	1,699,013	6,970	-	1,772,817	31,541	-
b) Other financial companies	7,721,810	2,100	-	4,964,724	11,860	-
of which: insurance companies	334	-	-	242	-	-
c) Non-financial companies	31,926,044	1,069,315	2,559	32,937,512	1,062,181	2,064
d) Families	33,572,869	691,428	185	34,736,515	603,367	179
Total	84,980,962	1,769,813	2,744	83,497,764	1,708,949	2,243

4.4 Financial assets measured at amortised cost: gross exposure and overall value adjustments

Type of transactions/Amount	Gross exposure					Value adjustments				Total Partial write-off (*)
	Stage 1	of which: low credit risk instruments	Stage 2	Stage 3	Purchased or originated credit impaired financial assets	Stage 1	Stage 2	Stage 3	Purchased or originated credit impaired financial assets	
Debt securities	10,708,219	10,398,140	46,802	-	-	7,670	4,206	-	-	-
Loans	68,526,008	-	9,976,901	3,473,282	4,805	105,911	368,682	1,703,070	2,061	32,925
31 12 2023	79,234,227	10,398,140	10,023,703	3,473,282	4,805	113,581	372,888	1,703,070	2,061	32,925
31 12 2022	75,720,412	9,502,132	11,483,146	3,285,924	4,429	96,159	353,978	1,576,975	2,186	32,196

* Value to be presented for disclosure purposes

For financial assets included in the stage 3 column and for purchased or originated credit impaired financial assets, 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. For impaired financial assets purchased, the gross value corresponds to the purchase price and the adjustments correspond 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 hedge and level

	Fair value 31 12 2023				NV as at 31 12 2023
	Level 1	Level 2	Level 3	Total	
A. Financial derivatives	-	704,125	-	704,125	20,577,981
1) Fair value	-	704,125	-	704,125	20,577,981
2) Cash flows	-	-	-	-	-
3) Foreign investments	-	-	-	-	-
B. Credit derivatives	-	-	-	-	-
1) Fair value	-	-	-	-	-
2) Cash flows	-	-	-	-	-
Total	-	704,125	-	704,125	20,577,981

Key

NV = Notional or Nominal Value

The table shows 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 2022				NV as at 31 12 2022
	Level 1	Level 2	Level 3	Total	
A. Financial derivatives	-	1,077,095	-	1,077,095	22,438,761
1) Fair value	-	1,077,095	-	1,077,095	22,438,761
2) Cash flows	-	-	-	-	-
3) Foreign investments	-	-	-	-	-
B. Credit derivatives	-	-	-	-	-
1) Fair value	-	-	-	-	-
2) Cash flows	-	-	-	-	-
Total	-	1,077,095	-	1,077,095	22,438,761

key

NV = Notional or Nominal Value



5.2 Hedging derivatives: breakdown by hedged portfolios and type of hedging

Transaction/Type of hedge	Fair Value						Cash Flows			Foreign Investments	Total 31 12 2023
	Micro-hedge						Macro-hedge	Micro-hedge	Macro-hedge		
	debt securities and interest rate	equity instruments and stock indices	currencies and gold	Credit	Commodities	Other					
1. Financial assets measured at fair value through other comprehensive income	22,797	-	-	-	X	X	X	-	X	X	22,797
2. Financial assets measured at amortised cost	275,880	X	-	-	X	X	X	-	X	X	275,880
3. Portfolio	X	X	X	X	X	X	385,331	X	-	X	385,331
4. Other transactions	-	-	-	-	-	-	X	-	X	-	-
Total assets	298,677	-	-	-	-	-	385,331	-	-	-	684,008
1. Financial liabilities	18,744	X	-	-	-	-	X	-	X	X	18,744
2. Portfolio	X	X	X	X	-	X	1,373	X	-	X	1,373
Total liabilities	18,744	-	-	-	-	-	1,373	-	-	-	20,117
1. Expected transactions	X	X	X	X	X	X	X	-	X	X	-
2. Financial assets and liabilities portfolio	X	X	X	X	X	X	-	X	-	-	-
Total	317,421	-	-	-	-	-	386,704	-	-	-	704,125

The table shows the positive fair values of hedging derivatives, classified by hedged assets or liabilities and type of hedging implemented.

In particular, for financial assets, fair value micro-hedging was used to hedge against interest rate risk on bonds classified in the portfolio “Financial assets measured at fair value through other comprehensive income”, in order to protect the portfolio from unfavourable interest rate changes; fair value macro-hedging of the interest rate risk refers to hedges of optional components implicit in a floating-rate mortgage loans portfolio; the generic fair value hedge on interest rate risk refers to hedges of fixed-rate mortgage portfolios and implicit option components of floating-rate mortgage portfolios.

With reference to financial liabilities, fair value micro-hedging of the interest rate risk refers primarily to hedges of liabilities represented by securities, while fair value macro-hedging of the interest rate risk refers to hedges of liabilities represented by deposit accounts.

More information on hedged assets and liabilities can be found in the tables contained in Part B of the notes to the financial statements for each section of the balance sheet items to which the hedged items are posted.



Section 6 - Change in value of macro-hedged financial assets - Item 60

6.1 Change in value of hedged assets: breakdown by hedged portfolios

Changes in value of hedged assets / Group components	Total 31 12 2023	Total 31 12 2022
1. Positive changes	-	-
1.1 of specific portfolios:	-	-
a) financial assets measured at amortised cost	-	-
b) financial assets measured at fair value through other comprehensive income	-	-
1.2 overall	-	-
2. Negative changes	561,183	908,737
2.1 of specific portfolios:	561,183	908,737
a) financial assets measured at amortised cost	561,183	908,737
b) financial assets measured at fair value through other comprehensive income	-	-
2.2 overall	-	-
Total	(561,183)	(908,737)

The value adjustment concerns mainly fixed and cap/floor 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 reduction in the negative value adjustment of assets subject to macro-hedging is due to the continued rise in market rates during the first three quarters of 2023 which resulted in a decrease in the fair value of the portfolio of hedged mortgages against increases in the value of the related hedging derivatives.

The fair value of the corresponding hedging derivatives is shown respectively in Table 5.2 (assets) or Table 4.2 (liabilities), both entitled “Hedging derivatives: breakdown by hedged portfolio and type of hedging”, in the “Macro-hedging” column.

The assets subject to macro hedging of interest risk refer to fixed and cap/floor floating rate mortgage loan portfolios included in item 40 “Financial assets measured at amortised cost - Loans to customers”, amounted to EUR 11,285.9 mln as at 31 December 2023 (EUR 10,341.8 mln as at 31 December 2022). 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	Type of relationship (1)	Ownership Relationship		Avail. % votes
				Held by	Share holding %	
A. Companies under joint control						
Immobiliare Novoli S.p.a.	Florence	Florence	7	Banca Monte dei Paschi di Siena	50.000	-
B. Companies under significant influence						
Axa Mps Assicurazioni Danni S.p.a.	Rome	Rome	8	Banca Monte dei Paschi di Siena	50.000	-
Axa Mps Assicurazioni Vita S.p.a.	Rome	Rome	8	Banca Monte dei Paschi di Siena	50.000	-
Fidi Toscana S.p.a.	Florence	Florence	8	Banca Monte dei Paschi di Siena	27.460	-
Fondo Etrusco Distribuzione	Rome	Rome	8	Banca Monte dei Paschi di Siena	48.000	-
Fondo Democrito	Rome	Rome	8	Banca Monte dei Paschi di Siena	52.220	-
Microcredito di Solidarietà S.p.a.	Siena	Siena	8	Banca Monte dei Paschi di Siena	40.000	-

(1) Type of relationship:

7 = joint control;

8 = companies subject to significant influence.

(2) Votes available in the ordinary shareholders' meeting, distinguishing between actual and potential

(a) The units in the Democrito real estate fund ("The Fund"), equal to 52.22%, were taken on in December 2023, as a result of the rollover transaction of the Socrate real estate fund, promoted by the Fund's management company - Fabbrica Immobiliare S.G.R. S.p.A. - in view of the maturity of the same set at 31 December 2023 and the impossibility of proceedings with the reimbursement of listed investors, as a large part of the properties were unsold.

In detail, the aforementioned transaction provided for the establishment of the Fund, unlisted and with a duration of 5 years with the possibility of extension, to which the listed institutional investors of the Socrate Fund (including Banca MPS for a share equal to 23.14%) contributed their shares with the simultaneous allocation of the shares of the new Democrito Fund. The Fund purchased the residual real estate portfolio of the Socrate Fund partly through the opening of a credit line with a third-party bank, which will be repaid in conjunction with the sales of the properties and, in part, through a loan from the Socrate Fund. The liquidity obtained from the Socrates Fund through the sale of the properties was used for the reimbursement of retail shareholders; the payable of Socrates for the repayment of the Fund's units, contributed by the former Socrate's shareholder institutional investors, was offset with the debt incurred by the Fund for the purchase of the properties.

From an accounting point of view, the derecognition of the shares in the Socrate Fund and the recognition of the new shares acquired in the Democrito real estate fund, recorded among the associates, did not have any effects on the income statement for the year.

For further details on changes, see comments to table "7.5 - Equity investments: annual changes".



7.2 Significant equity investments: book value, fair value and dividends earned

31 12 2023

Company name	Book value		Fair value	Dividends earned
	31 12 2023	31 12 2022		
A. Companies under joint control				
B. Companies under significant influence				
Axa Mps Assicurazioni Vita S.p.a.	523,598	534,074	-	75,108
Axa Mps Assicurazioni Danni S.p.a.	97,424	104,206	-	40,014
Fidi Toscana S.p.a.	15,587	22,159	-	-
Fondo Minibond PMI Italia	-	2,525	-	-
Fondo Etrusco	84,375	81,128	-	1,020
Fondo Socrate	-	5,989	-	-
Fondo Democrito	5,110	-	-	-
Total	726,094	750,081	-	116,142

At the reporting date or for the financial year of comparison, there are no equity investments arising from the recovery of impaired financial assets.

7.3 Significant equity investments: accounting information

Company Name	Cash and cash equivalent	Financial activities	Non financial activities	Financial liabilities	Non financial liabilities	Total revenues	Net interest income	Net adjustments/recoveries on property, plant and equipment and intangible assets	Profit (loss) before tax from continuing operations	Profit (loss) after tax from continuing operations	Profit (Loss) from group of assets held for sale after tax	Profit (loss) for the year (1)	Other comprehensive income after tax (2)	Comprehensive income (3) = (1) + (2)
A. Companies under joint control														
B. Companies under significant influence														
Axa Mps Assicurazioni Danni S.p.a.	X	606,624	11,740	402,883	25,264	165,739	X	X	96,136	66,799	-	66,799	(217)	66,582
Axa Mps Assicurazioni Vita S.p.a.	X	18,809,270	354,349	17,936,105	4,596	945,733	X	X	123,455	93,506	-	93,506	6,713	100,219
Fidi Toscana S.p.a.	X	150,439	107,015	23	153,084	2,942	X	X	1,132	1,132	-	1,132	12	1,144
Fondo Etrusco	X	17,883	229,191	57,736	5,060	9,010	X	X	5,393	5,393	-	5,393	-	5,393
Fondo Democrito*	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

*As at 31 December 2023, no accounting information are available for Democrito fund due its recent establishment.



7.3a - Reconciliation of accounting information with the book value of equity investments

	AXA MPS ASSICURAZIONI DANNI S.p.A	AXA MPS ASSICURAZIONI VITA S.p.a.	FIDI TOSCANA S.p.a.	FONDO ETRUSCO	FONDO DEMOCRITO*
Shareholding	50.00%	50.00%	27.46%	48.00%	52.22%
Cash and cash equivalent	X	X	X	X	X
Financial assets	606,624	18,809,270	150,439	17,883	n.a.
Non-financial assets	11,740	354,349	107,015	229,191	n.a.
Financial liabilities	402,883	17,936,105	23	57,736	n.a.
Non-financial liabilities	25,264	4,596	153,084	5,060	n.a.
Net equity (100%)	190,216	1,222,917	104,347	184,278	n.a.
Group shareholding	95,108	611,459	28,654	88,453	n.a.
Elimination of unrealized intragroup profit/loss	-	(48,489)	-	-	n.a.
Goodwill	2,316	46,796	-	-	n.a.
Value adjustments	-	-	(25,633)	-	n.a.
Other adjustments	-	(86,168)	12,567	(4,078)	n.a.
Book value of Associate Company as at 31 12 2023	97,424	523,598	15,588	84,375	
Book value as at 31 12 2022	104,206	534,074	22,159	81,128	n.a.
Profit (loss) for the year	66,799	93,506	1,132	5,393	n.a.
Other comprehensive income after tax	(217)	6,713	12	-	n.a.
Comprehensive income attributable to the Group	33,291	50,109	314	2,588	n.a.
Dividends	(40,014)	(75,108)	-	(1,020)	n.a.
Other increase/decrease	-	-	(6,572)	-	n.a.
Other adjustments	(59)	14,523	(313)	1,679	n.a.
Book value of Associate company as at 31 12 2023	97,424	523,598	15,588	84,375	n.a.

*As at 31 December 2023, no accounting information are available for Democrito fund due its recent establishment.



7.3b – Significant equity investments: information on business

Company name	Type of business
Companies under significant influence	
Axa Mps Assicurazioni Danni S.p.a.	Company specialising in P&C insurance, offering a comprehensive range of insurance solutions tailored to the needs of customers and businesses.
Axa Mps Assicurazioni Vita S.p.a.	Leading company in the domestic insurance market, offering innovative and advantageous solutions for all pension, insurance, savings and investment needs.
Fidi Toscana S.p.a.	A Tuscan financial company which aims to facilitate access to credit for small and medium businesses.
Fondo Etrusco Distribuzione	Real estate fund for institutional investors. Its portfolio has been built up through a series of sale and leaseback transactions on commercial properties fully leased by a leading player in the Mass Distribution Industry.
Fondo Democrito	A closed-end real estate fund constituted following the rollover of the Socrates Fund, which expired, and following the inability to redeem its units, remaining unsold the real estate at the fund's expiry date. The purpose of the fund is the collective investment of capital in real estate, real property rights and participations in real estate companies, as well as the professional management and valorisation of the fund's assets.

The associates AXA MPS Assicurazioni Danni S.p.A. and AXA MPS Assicurazioni Vita S.p.A. are strategic for the Group.

7.4 Non-significant equity investments: accounting information

Companies	Book value of equity investment	Total assets	Total liabilities	Total revenues	Gain (Loss) from continuing operations after tax	Gain (Loss) from groups of assets held for sale after tax	Gain (Loss) for the year (1)	Other comprehensive income after tax (2)	Comprehensive income (3) = (1) + (2)
A. Companies under joint control	-	123,934	122,806	21,742	2,226	-	2,226	-	2,226
B. Companies under significant influence	597	2,196	702	65	-	-	-	-	-



7.5 Equity investments: annual changes

	Total 31 12 2023	Total 31 12 2022*
A. Opening balance	750,678	1,095,412
B. Increases	107,240	131,438
B.1 Purchases	-	-
B.2 Write-backs	-	-
B.3 Revaluations	90,793	95,390
B.4 Other increases	16,446	36,048
C. Decreases	131,227	476,172
C.1 Sales	-	-
C.2 value adjustments	6,572	-
C.3 Write-downs	-	559
C.4 Other decreases	124,655	475,613
D. Closing balance	726,691	750,678
E. Total revaluation	-	-
F. Total write-downs	24,862	18,337

* Comparative data were restated with respect to those published at the reporting date, following the retrospective application of IFRS 17 and IFRS 9 standards by the insurance associates.

The line B.3 “Revaluations” include the portion of profits for the year almost entirely realised by the insurance investees and valued using the equity method.

In line B.4 “Other changes”, the amount of EUR 16.4 mln is attributable for EUR 11.3 mln to the positive change in shareholders’ equity of the investees AXA following changes in the respective valuation reserves and OCI reserves, and for EUR 5.1 mln to the subscription of the shares of the Democrito Fund, completed in December 2023, following the rollover transaction of the Socrate real estate fund.

In line with the provisions of the accounting standards, the impairment test on equity investments showed value adjustments totalling EUR 6.6 mln, indicated in line C.2 “Value adjustments”, referring to the investee Fidi Toscana, a company under significant influence.

The amount of EUR 124.7 mln recognised in line C4 “Other changes” mainly refers, for the portion pertaining to the Group, to the reduction in the value of the shareholders’ equity of the investees due to the distribution of dividends. The disposal, completed in December 2023, of the units in the Socrate real estate fund, equal to approximately EUR 5.9 mln, and the full repayment of the Minibond Fund following the approval of the final allocation of the shares promoted by Finanziaria Internazionale Investments SGR S.p.A., ended in June 2023, amounting to approximately EUR 2.3 mln.

reported below is the main embedded goodwill:

Embedded goodwill	31 12 2023	31 12 2022
Axa Mps Assicurazioni Vita S.p.a.	46,796	46,796
Axa Mps Assicurazioni Danni S.p.a.	2,316	2,316
Total	49,112	49,112

7.6 Key considerations and assumptions to determine the existence of joint control or significant influence

The Group considers associate companies, and therefore subject to significant influence, those companies in which it holds a fifth or more of voting rights (including potential voting rights) or in which – despite a lower percentage of voting rights– it has the power of participating in the determination of the financial and operating policies of the investee on account of specific legal agreements such as, for example, the participation in shareholders’ agreements, the participation in important committees of the investee as well as the presence of vetoing rights on significant decisions.

The Group considers jointly controlled those companies with respect to which the following circumstances occur simultaneously:



- if an agreement has been entered into that assigns co-participation in the management of the investee's activities via a presence on the Board of Directors;
- none of the parties participating in the agreement holds exclusive control;
- decisions relating to relevant activities are made unanimously by the parties identified (each has an implicit or explicit veto right with regard to relevant decisions).

7.7 Covenants on equity investments in jointly controlled companies

No covenants on equity investments in jointly controlled companies are reported.

7.8 Covenants on equity investments in companies subject to significant influence

In the context of the agreements implementing the *Bancassurance* Framework Agreement between AXA and MPS signed in 2007 (hereinafter the "Framework Agreement"), the shareholders' agreement signed in 2007 (the "Shareholders' Agreement"), which regulates the corporate governance of the companies, AXA MPS Assicurazioni Vita S.p.A. (hereinafter "AMAV") and AXA MPS Assicurazioni Danni S.p.A. (hereinafter "AMAD"), provides, inter alia, for put and call options in favour of AXA and MPS, respectively, which may be exercised by them upon the occurrence of the following events: change of control, breach of the lock-up, termination and natural dissolution of the Framework Agreement, serious breach and, finally, invalidity of the entire Framework Agreement as a result of a final and no longer appealable arbitration decision or ruling.

The exercise price of the options in question is equal to the market value of the AMAD and AMAV shares defined as their value at the date of the last day of the calendar quarter preceding the quarter of the calendar year in which the communication of the exercise of the put option of AXA or the call option of MPS, as the case may be, is received by MPS or AXA, respectively. This value, established on the basis of the guidelines contained in the Shareholders' Agreement, is compliant with the methods usually adopted in the practice for the valuation of companies operating in the insurance sector, and refers to general principles and methods consistent with the definition of fair value as stated in IFRS 13.

In general, the aforementioned options are linked to conditions precedent and have a protective value typical of joint venture agreements. From an accounting point of view, it should be noted that the put and call options related to all the events mentioned above are not recognised in the Group's Financial Statements, as they do not qualify as derivatives pursuant to the definition stated in IFRS 9. In this regard, it should be noted that the exercise price of the options is given by the fair value of the underlying, therefore the option price is always zero or in cases where the options provide for a weighting factor applied to the exercise price other than 100%, the value of these options is substantially zero given the remote probability of the exercise, which is connected to events under the control of the parties and producing unfavourable economic effects for the party that activates them.

7.9 Significant restrictions

As at the reporting date, there are no significant restrictions on the ability of the jointly controlled company or associated companies to transfer funds to Group companies, except those attributable to regulatory legislation, which may require the maintenance of a minimum amount of own funds, or the provisions of the Italian Civil Code on distributable profits and reserves.

7.10 Other information

The valuation with the synthetic equity method is carried out on the basis of the Financial Statements referring to 31 December 2023 for the insurance investees; for other companies over which the Group exercises a significant influence or holds joint control and for which the timing of availability of the financial statements at the end of the financial year is not compatible with the timing of the closing of the consolidated Financial Statements of the MPS Group, reference is made to the last available accounting report, represented, in most cases by the accounting situation as at 30 June 2023. In any case, when the accounting reports of the associate or joint venture used in applying the equity method refer to a date other than the financial statements of the MPS Group, adjustments are made to take into account any effects of significant transactions or events that occurred between that date and the reporting date of the MPS Group.



Impairment tests on equity investments

As required by the IFRS accounting standards, the equity investments are subject to the impairment test in order to assess whether there is objective evidence that might render the book value of these assets not entirely recoverable. For equity investments in associates or jointly controlled entities, the process to recognise impairment involves verifying the presence of impairment indicators and calculating the necessary write-down. For further details, please refer to Part A of these Notes to the consolidated financial statements, paragraph “Use of estimates and assumptions - Methods for determining impairment of equity investments”. The valuations as at 31 December 2023 highlighted the need to make value adjustments for the company under significant influence, Fidi Toscana S.p.A., in the amount of EUR 6.6 mln.

Section 8 – Insurance activities – Item 80

No values are shown in this section as the insurance companies in which the Group holds equity investments are associates, and therefore these investments are consolidated using the synthetic equity method.

Section 9 - Property, plant and equipment - Item 90

9.1 Property, plant and equipment used in the business: breakdown of assets valued at cost

Asset/Amount	Total	
	31 12 2023	31 12 2022
1. Assets owned	199,806	219,886
a) land	-	-
b) buildings	-	-
c) furniture and furnishings	132,335	136,690
d) electronic systems	40,891	50,409
e) other	26,580	32,787
2. Right of Use acquired through leasing	185,017	204,628
a) land	-	-
b) buildings	183,733	198,532
c) furniture and furnishings	155	86
d) electronic systems	-	3,631
e) other	1,129	2,379
Total	384,823	424,514
<i>of which: obtained through the enforcement of the guarantees received</i>	-	-

All the Group's tangible assets are measured at cost with the exception of land and buildings.

Item 1 “Assets owned –c) furnishings” includes artworks whose value amounts to EUR 119.8 mln.

The rights of use acquired under leasing are nearly entirely attributable to lease contracts used as branches and as spaces intended to accommodate ATMs or internal offices. The rights of use on electronic systems are zeroed as the equipment previously subject to rental agreements was purchased by the Group in 2023 by exercising the right of redemption.

As at the reporting date of these Financial Statements, as well as in the comparison financial year, there are no tangible assets obtained through the enforcement of guarantees.

9.2 Property, plant and equipment held for investment purposes: breakdown of assets valued at cost

There were no assets measured at cost.



9.3 Property, plant and equipment used in the business: breakdown of revalued assets

Asset/Amount	Total 31 12 2022				Total 31 12 2021			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
1. Assets owned	-	-	1,531,684	1,531,684	-	-	1,617,945	1,617,945
a) land	-	-	883,548	883,548	-	-	963,842	963,842
b) buildings	-	-	648,136	648,136	-	-	654,103	654,103
c) furniture and furnishings	-	-	-	-	-	-	-	-
d) electronic systems	-	-	-	-	-	-	-	-
e) other	-	-	-	-	-	-	-	-
2. Right of Use acquired through leasing	-	-	-	-	-	-	-	-
a) land	-	-	-	-	-	-	-	-
b) buildings	-	-	-	-	-	-	-	-
c) furniture and furnishings	-	-	-	-	-	-	-	-
d) electronic systems	-	-	-	-	-	-	-	-
e) other	-	-	-	-	-	-	-	-
Total	-	-	1,531,684	1,531,684	-	-	1,617,945	1,617,945
<i>of which: obtained through the enforcement of the guarantees received</i>	-	-	-	-	-	-	-	-

Land and buildings classified as tangible assets used in the business are valued according to the restated value criterion, for valuation subsequent to initial recognition. The line “land” expresses the value of land separately from the value of buildings.

As at 31 December 2023, the Group has granted operating leases of owned assets for business use totalling EUR 5.9 mln, entirely in the categories a) land and b) buildings. For more information on the Group’s lease assets, see Part M of these Notes to the Financial Statements.

There were no property, plant and equipment obtained by means of financial leases or through the enforcement of guarantees at the reporting date of these Financial Statements or for the financial year of comparison.

9.4 Property, plant and equipment held for investment purposes: breakdown of assets measured at fair value

Asset/Amount	31 12 2023				31 12 2022			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
1. Assets owned	-	-	285,247	285,247	-	-	303,689	303,689
a) land	-	-	127,300	127,300	-	-	143,317	143,317
b) buildings	-	-	157,947	157,947	-	-	160,372	160,372
2. Right of Use acquired through leasing	-	-	-	-	-	-	-	-
a) land	-	-	-	-	-	-	-	-
b) buildings	-	-	-	-	-	-	-	-
Total	-	-	285,247	285,247	-	-	303,689	303,689
<i>of which: obtained through the enforcement of the guarantees received</i>	-	-	25,764	25,764	-	-	29,447	29,447

Assets measured at fair value consist of owned real estate not used for business operations. In this regard, it should be noted that the Group does not hold investment assets represented by rights of use acquired through leases.

As at 31 December 2023, the Group has granted operating leases of owned assets held for investment purposes totalling EUR 67.4 mln, entirely attributable to the categories a) land and b) buildings. For more information on the Group’s leasing activity, see Part M of these Notes to the Consolidated Financial Statements.

The criteria for classification of property, plant and equipment as an investment property 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.



At the reporting date of these financial statements, or for the year of comparison, there were no cases under paragraph 75 letter g), h) of IAS 40 attributable to: restrictions on the feasibility of investment properties or on the remittance of income and collections related to the disposal; contractual obligations for the acquisition, construction or development of investment property or for repairs, maintenance or improvements.

9.5 Inventories of property, plant and equipment governed by IAS 2: breakdown

Assets/Amounts	Total	
	31 12 2023	31 12 2022
1. Inventories of property, plant and equipment obtained through enforcement of the guarantees	153	306
a) Land	153	306
b) Buildings	-	-
c) Furniture and furnishings	-	-
d) Electronic systems	-	-
e) Others	-	-
2. Others inventories of property, plant and equipment	26,792	29,472
Total	26,945	29,778
<i>of which: measured at fair value net costs of sales</i>	-	-

Line “1. Inventories of property, plant and equipment, obtained through the enforcement of guarantees received” refers to land of the subsidiary Aiace, in liquidation at the reference date of these Financial Statements.

“Other inventories of property, plant and equipment” mainly refer to properties of the Parent Company acquired following the merger by incorporation of former subsidiary MPS Immobiliare S.p.A. in 2014.



9.6 Property, plant and equipment used in the business: annual changes

	Land	Buildings	Furniture and furnishings	Electronic systems	Others	Total 31 12 2023
A. Gross opening balance	996,625	1,482,649	535,413	831,471	522,313	4,368,471
A.1 Total net decrease	32,783	630,015	398,637	777,431	487,147	2,326,013
A.2 Net opening balance	963,842	852,634	136,776	54,040	35,166	2,042,458
B. Increases	7,052	117,497	1,349	8,814	3,440	138,152
B.1 Purchases	-	16,829	1,302	8,814	3,421	30,366
B.2 Capitalized expenditure on improvements	-	14,394	-	-	-	14,394
B.4 Increases in fair value booked to:	7,052	3,925	-	-	-	10,977
a) shareholders' equity	5,777	2,353	-	-	-	8,130
b) profit and loss	1,275	1,572	-	-	-	2,847
B.7 Other increases	-	82,349	47	-	19	82,415
C. Decreases	87,346	138,263	5,635	21,963	10,896	264,103
C.1 Sales	-	-	-	-	-	-
C.2 Depreciation	-	70,759	5,635	21,273	10,664	108,331
C.3 Impairment losses booked to:	-	21	-	-	-	21
b) profit and loss	-	21	-	-	-	21
C.4 Decreases in fair value booked to:	42,733	27,662	-	-	-	70,395
a) shareholders' equity	26,374	12,739	-	-	-	39,113
b) profit and loss	16,359	14,923	-	-	-	31,282
C.5 Negative exchange differences	-	31	-	9	1	41
C.6 Transfer to:	13,052	8,010	-	-	-	21,062
a) tangible asset held for investment	13,052	8,010	X	X	X	21,062
C.7 Other decreases	31,561	31,780	-	681	231	64,253
D. Net closing balance	883,548	831,868	132,490	40,891	27,710	1,916,507
D.1 Total net decreases	32,782	687,501	404,267	798,693	497,771	2,421,014
D.2 Gross closing balance	916,330	1,519,369	536,757	839,584	525,481	4,337,521
E. Carried at cost	592,298	807,199	-	-	-	1,399,497

The furniture, electronic systems and property, plant and equipment included in the “Other” column are valued at cost.

On the other hand, land and buildings are valued according to the restated value method, for valuation after initial recognition at cost.

Line B.4 “Increases in fair value” shows total changes of EUR 11.0 mln, of which EUR 2.9 mln charged to the Income Statement as write-backs resulting from previous impairment losses and EUR 8.1 mln to valuation reserves. Line C.4 “Decreases in fair value” shows total changes of EUR 70.4 mln, of which EUR 31.3 mln was charged to the Income Statement and EUR 39.1 mln to the pre-existing valuation reserves. These changes result from the update of the value of real estate attributable to IAS 16 properties carried out as at 31 December 2023. For details of the valuation methodologies, see paragraph “Fair value levels 2 and 3: measurement techniques and inputs used” in Part A of these Notes to the Financial Statements.

In the line B.7 – Other increases– and “C.7 - Other decreases”, under column “buildings” are included the increases and the decreases related to the right of use of certain properties resulting from the renewal of contracts finalized during the year (see table 9.6.a). The same line under column “land” include the transfers of value between the “building” component and that of the “land” of the same property, in relation to the fact that the unit of measurement considered in order to determine the valuation effects, to be recognised in shareholders' equity or in the income statement based on the sign, is the individual property. In this regard, it must, in fact, be specified that the opening of the single property between the two components (“land” and “building”) is relevant for the purpose of calculating depreciation, depending on the different deterioration that characterises them; the aforementioned opening, on the other hand, is not relevant for the purpose of a separate determination of the valuation effects, taking into account that the two components of the same property cannot be sold separately.

Line C.6 letter a) “tangible asset held for investment” mainly refers to the properties owned by the Group that were reclassified following the change of use of the prevailing portion of the property.



Line E – “Carried at cost” was shown as per the Bank of Italy’s instructions, it needs to be completed for assets accounted for at fair value.

9.6 a Property, plant and equipment used in the business - rights of use acquired: annual changes

	Land	Buildings	Furniture and furnishings	Electronic systems	Others	Total 31 12 2023
A. Gross opening balance	-	390,328	120	20,800	7,354	418,602
A.1 Total net decrease	-	191,796	34	17,169	4,975	213,974
A.2 Net opening balance	-	198,532	86	3,631	2,379	204,628
B. Increases	-	59,092	70	-	141	59,303
B.1 Purchases	-	16,829	22	-	132	16,983
B.7 Other increases	-	42,263	48	-	9	42,320
C. Decreases	-	73,891	1	3,631	1,391	78,914
C.2 Depreciation	-	42,292	1	3,631	1,357	47,281
C.3 Impairment losses booked to:	-	21	-	-	-	21
<i>b) profit and loss</i>	-	21	-	-	-	21
a) shareholders’ equity	-	31	-	-	-	31
C.7 Other decreases	-	31,547	-	-	34	31,581
D. Net closing balance	-	183,733	155	-	1,129	185,017
D.1 Total net decreases	-	234,109	35	20,800	6,332	261,276
D.2 Gross closing balance	-	417,842	190	20,800	7,461	446,293
E. Carried at cost	-	-	-	-	-	-

Line B.1 “Purchases” includes rights of use on properties deriving from the stipulation of new lease agreements.

The outcome of the impairment test carried out as at 31 December 2023 on the rights of use on properties led to the recognition of an impairment loss equal to EUR 0.02 mln recognised in the income statement item 210 “Net impairment losses/reversals on property, plant and equipment” and included in the aforementioned table in line “C.3 Impairment losses booked to profit and loss”.

“Other increases” in line B.7 shows the changes in the book value of the rights of use resulting from the renewal of existing contracts. “Other decreases” in line C.7 are mainly due to:

- renegotiations of the economic terms of existing contracts, agreed during the financial year;
- release of rented properties as part of the branch closing plan.



9.7 Property, plant and equipment held for investment purposes: annual changes

	31 12 2023		
	Lands	Building	Total
A. Opening balance	143,317	160,372	303,689
B Increases	15,167	17,380	32,547
B.1 Purchases	-	-	-
B.2 Capitalized expenditure on improvements	-	1,102	1,102
B.3 Increases in fair value	1,688	1,852	3,540
B.4 Write-backs	-	-	-
B.5 Exchange gains	-	-	-
B.6 Transfers from property used in the business	13,052	8,010	21,062
B.7 Other increases	427	6,416	6,843
C. Decreases	31,184	19,806	50,990
C.1 Sales	486	319	805
C.2 Depreciation	-	-	-
C.3 Decreases in fair value	11,799	15,165	26,964
C.4 Impairment losses	-	-	-
C.5 Exchange losses	-	-	-
C.6 Transfers to other asset portfolio	6,377	3,945	10,322
a) properties used in the business	-	-	-
b) Non-current assets held for sale and disposal groups	6,377	3,945	10,322
C.7 Other decreases	12,522	377	12,899
D. Closing balance	127,300	157,946	285,246
E. Measured at fair value	-	-	-

Property, plant and equipment held for investment purposes, consisting entirely of owned properties, are measured at fair value.

Lines B.3 “Increases in fair value” and C.3 “Decreases in fair value” show the changes attributable to changes in the estimate of fair value resulting from the update of the appraisals as at 31 December 2023, which are overall negative for EUR 23.4 mln. In this regard, it should be noted that, for the purposes of compiling the table in question, the valuation effects at fair value were represented as “open balances” between the land component and the building component for each building unit. In the table that breaks down the income statement item “260. Net gains (losses) on property, plant and equipment and intangible assets measured at fair value”, where the above-mentioned valuation impact is reported, capital gains (losses) are however determined taking the individual property as reference unit.

The sub-item “E. Measured at fair value”, to be completed for investment properties valued at cost, is blank as all properties are valued at fair value. As at 31 December 2023, therefore, the book value of property, plant and equipment held for investment purposes (sub-item D) corresponds to its fair value.



9.8 Inventories of property, plant and equipment governed by IAS 2: annual changes

	Inventories of property, plant and equipment obtained through enforcement of the guarantees					Other Closing balance of tangible assets	Total
	Land	Buildings	Furniture and furnishings	Electronic systems	Others		
A. Opening balance	306	-	-	-	-	29,472	29,778
B. Increase	-	-	-	-	-	106	106
B.1 Purchases	-	-	-	-	-	-	-
B.2 Write-backs	-	-	-	-	-	20	20
B.3 Exchange gains	-	-	-	-	-	-	-
B.4 Other increases	-	-	-	-	-	86	86
C. Decreases	153	-	-	-	-	2,786	2,939
C.1 Sales	-	-	-	-	-	1,345	1,345
C.2 Impairment losses	153	-	-	-	-	1,152	1,305
C.3 Exchange losses	-	-	-	-	-	-	-
C.4 Other decreases	-	-	-	-	-	289	289
D. Closing balance	153	-	-	-	-	26,792	26,945

9.9 Commitments to purchase property, plant and equipment

No commitments to purchase property, plant and equipment were registered in 2023, as was the case for the comparison financial year.

9.10 Property, plant and equipment: depreciation rates

Main categories of property, plant and equipment	%
Buildings	2%-20%
Furniture and furnishings	10% - 20%
Alarm and video systems	20% - 30%
Electronic and ordinary office equipment	20%
Electronic data processing equipment	20% - 50%
Vehicles	20% - 25%
Telephones	20% - 25%

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, land and artworks are not depreciated. Investment property measured at fair value is not subject to depreciation.

For buildings for business use, the depreciation rates are determined on the basis of the cluster to which the individual building belongs. The different clusters are defined in terms of useful life, starting from a minimum of 5 years up to a maximum of 50 years.

Note that the rights of use acquired through leasing are depreciated based on the lease contract duration.



Section 10 – Intangible assets – Item 100

10.1 Intangible assets: breakdown by type

Asset / Amount	31 12 2023			31 12 2022		
	Finite Life	Indefinite Life	Total	Finite Life	Indefinite Life	Total
A.1 Goodwill	X	7,900	7,900	X	7,900	7,900
A.1.1 Group	X	7,900	7,900	X	7,900	7,900
A.1.2 Minorities	X	-	-	X	-	-
A.2 Other intangible assets	170,324	-	170,324	154,749	-	154,749
<i>of which software</i>	<i>169,170</i>	<i>-</i>	<i>169,170</i>	<i>153,174</i>	<i>-</i>	<i>153,174</i>
A.2.1 Assets carried at cost	170,324	-	170,324	154,749	-	154,749
a) internally generated intangible assets	33,354	-	33,354	42,616	-	42,616
b) other assets	136,970	-	136,970	112,133	-	112,133
A.2.2 Assets valued at fair value:	-	-	-	-	-	-
a) internally generated intangible assets	-	-	-	-	-	-
b) other assets	-	-	-	-	-	-
Total	170,324	7,900	178,224	154,749	7,900	162,649

All of the Group's intangible assets are valued at cost and have a finite useful life with the exception of goodwill. Goodwill is not systematically amortised but tested for impairment (Impairment Test). The test performed did not result in any impairment losses.

In line "A.2.1 Assets carried at cost – a) internally generated intangible assets" includes intangible assets linked to internally generated technology in the amount of EUR 33.3 mln.

Line "A.2.1 Assets valued at cost – b) Other assets" includes software purchased from/developed by third parties for EUR 135.6 mln.

Software, recognised overall in the financial statements in the amount of EUR 169.0 mln, is normally amortised over a period of three to five years, except in special cases. Finally it should be noted that the analysis was carried out of the future service life of the main capitalised assets to check for impairment, leading to an adjustment of about EUR 0.7 mln.

During preparation of the 2023 financial statements, goodwill recognised was tested for recoverability or impairment. In accordance with Document 4 jointly published by Bank of Italy/Consob/IVASS on 3 March 2010 and provisions set out in IAS 36, "Impairment of Assets", the activities carried out to perform the goodwill recoverability test are described below.



Impairment test on Group goodwill

Pursuant to IAS 36, all intangible assets with an indefinite useful life must be tested for impairment at least annually to verify the recoverability of value. The Group performs the impairment test with reference to 31 December of each year, and in any case each time the presence of loss indicators is recorded.

The aforementioned standard requires the determination of the recoverable value, defined as the higher value between the fair value and the value in use; if it is not possible to directly determine the recoverable value of the specific intangible asset recognised in the Financial Statements, it is necessary to determine the recoverable value of the cash-generating unit to which the asset belongs (hereinafter “CGU - Cash Generating Unit”). In order to identify the CGUs to which to attribute assets to be tested for impairment, it is necessary that the potentially identified units generate cash inflows from continuing use which are largely independent of the cash inflows from other assets or groups of assets, which the Group is able to recognise separately in its management reporting system.

It should also be noted that the assessment procedure and parameters for the impairment test of goodwill were approved by the Board of Directors independently and in advance of the approval of the Consolidated Financial Statements.

a. Identification of goodwill

The impairment test was carried out on goodwill; no other indefinite-life intangible assets are recognised in the financial statements.

b. Identification of cash-generating units and allocation of goodwill to the cash-generating units identified

According to IAS 36, each CGU or group of CGUs to which goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes and should not be larger than an operating segment as defined by IFRS 8 (“Operating Segments”).

In continuity with the approach adopted in the impairment test at 31 December 2022, the Group’s goodwill was tested by identifying those CGUs into which the Group’s operations can be broken down and it is possible to analyse the cash flows that these will be able to generate in future years, based on an approach consistent with the segment reporting presented in the financial statements and, therefore, with management reporting.

The CGUs are identified in line with operating segments (segment reporting), except for the Retail Banking operating segment where it is possible to identify two distinct CGUs, the Retail CGU and the Widiba CGU.

The CGUs, identified on the basis of the above, are as follows:

- **“Retail CGU”**, which includes the Income Statement/Balance Sheet results of Retail customers (Value, Premium segments);
- **“Widiba CGU”**, which includes the financial results of Banca Widiba (network of financial advisors and Self service channel);
- **“Wealth Management CGU”**, which includes the income statement/balance sheet results of Private Banking customers (Private Banking and Family Office segments) and the subsidiary MPS Fiduciaria;
- **Corporate Banking CGU**, which includes the income statement/balance sheet results of Business customers (SME, Corporate Client and Small Business segments), the Foreign Branches, the merged entity MPS Leasing & Factoring S.p.A. and the foreign bank MP Banque;
- **“Large Corporate and Investment Banking CGU”**, which includes the economic/equity results of Large Corporate customers, of the Corporate Finance and Investment Banking and Global Markets business units as well as of the merged MPS Capital Services Banca per le Imprese S.p.A (for the first half of the year).

They are consistent with the method of primary representation of income/balance sheet data adopted by the Group (*Segment Reporting*). The goodwill is allocated to the Widiba CGU and is therefore the only CGU subjected to an impairment test.



c. Determination of the recoverable value of the CGU

On the basis of the IAS 36 accounting standard, the amount of the impairment loss is determined by the difference between the book value of the CGU and its recoverable amount, if lower. Recoverable amount is defined as the higher of:

- Fair value net of costs to sell - the amount obtainable from the sale of an asset in a regular transaction between market participants, less the costs of disposal;
- Value in use - the present value of estimated future cash flows expected to arise from the continuing use of an asset or from a cash-generating unit (CGU).

The Group's goodwill as at 31 December 2023 was tested for impairment by identifying the recoverable amount of the Widiba CGU as the value in use estimated through the discounting of future distributable cash flows.

This test was conducted on the basis of the 2023 results of Banca Widiba, the 2024 projections of the subsidiary underlying the Group Budget (approved by the Parent Company's Board of Directors at its meeting on 25 January 2024) and the 2025 projections obtained by applying to the 2024 Budget the dynamics that were forecast for 2025 in the income statement of Widiba underlying the RAS/Capital Plan 2023 long-term projections approved by the Parent Company's Board of Directors on 30 March 2023.

The recoverable amount was estimated by applying the *Dividend Discount Model* (DDM). According to this method, the value of a company is a function of the dividend flow that it is able to generate prospectively. In this case, the method used is the DDM in the *Excess Capital* variant, which assumes that the economic value of a company is equal to the sum of the present value of future cash flows generated in the chosen planning time horizon and distributable to shareholders while maintaining a level of capitalisation adequate to guarantee the expected future development, and the perpetual capitalisation of the flow of the last forecast year, depending on profitability at full capacity. The application of the DDM involves the use of the following formula:

$$W = \sum_{t=1}^n \frac{F_t}{(1+i)^t} + VT_a$$

where:

F_t = cash flows distributable to shareholders over the selected time horizon based on the economic and financial projections made, maintaining a satisfactory level of capitalisation.

i = discount rate represented by the cost of equity (k_e).

VT_a = present Terminal Value calculated as the value of a perpetual yield that is estimated according to an economically sustainable normalised cash flow consistent with the long-term growth rate ("g").

Cash flow discount rates

To discount cash flows distributable to shareholders, the cost of equity was used, i.e. the return on equity required by investors/shareholders for investments with comparable risk characteristics. This rate, equal to 10.90%, is the cost of capital of the MPS Group as at 31 December 2023 according to the methodology validated by internal management committees and calculated using the Capital Asset Pricing Model ("CAPM"), based on the following formula:

$$k_e = R_f + \text{Beta} * \text{ERP} + \text{CR}$$

where:

R_f = risk-free rate, equal to the rate on risk-free assets as 1-year average of the yield on the 10-year BUND, with a zero floor as at 31 December 2023

Beta = correlation factor between actual share performance and overall performance of the reference market (measurement of the volatility of a stock relative to the market), equal to 1.164% (as at 31 December 2023, five years, weekly on the FTSE MIB index)

ERP = *Equity Risk Premium*, premium for the risk required by a mature market (US market, *source: Damodaran*).

CR = *country risk premium* that reflects the risk differential between a mature market and Italy (rating based default spread - *Moody's BAA3* - *source: Damodaran*).

The Terminal Value was calculated based on the following formula:

$$VT = \text{normalised distributable cash flow} / (k_e - g)$$



considering a normalised cash flow and an assumed long-term growth rate (g) of 2.00%, approximated by the long-term inflation rate expected in Italy in the long term (“Inflation, end of period consumer prices” - “International Monetary Fund, World Economic Outlook Database, October 2023”).

Summary of valuation parameters

The distributable cash flows were therefore determined starting from the 2023-2025 income statement and balance sheet data, as illustrated above, with the following main measurement parameters, which reflect the most recent market conditions, used in determining the recoverable value of the CGU at 31 December 2023:

- a target supervisory ratio (capital ratio) of 8.5% at 2025, taking into account the characteristics of Widiba’s business;
- the CGU’s cost of capital (k_c) equal to 10.90%, determined using the method described above;
- a long-term growth rate (g) of 2.00%.

d. Impairment test results

The results (in million euros) of the impairment test performed on the Widiba CGU on the basis of the analysis are presented below.

	Shareholders’ equity	Recoverable Value	Delta
Widiba CGU	200	483	283

In conclusion, the impairment test on goodwill did not bring to light impairment losses for the Widiba CGU, as the recoverable value is higher than the book value by EUR 283 mln.

e. Sensitivity analysis

In compliance with the provisions of IAS 36, specific sensitivity analyses were carried out on the recoverable value, in order to be able to appreciate the variability of this last value with respect to reasonable changes in some parameters of the valuation model.

In particular, the parameters subject to sensitivity analysis were identified as:

- “cost of capital (K_e)”;
- “long-term growth rate (g)”;

used in the valuation model both for forecasting purposes (Terminal Value obtained as projection in perpetuity of the last available cash flow at rate “g”), and for the purposes of discounting future distributable cash flows (K_e) and Terminal Value (K_e and g).

Furthermore, the sensitivity analysis also concerned the cash flows used to determine the Terminal Value, corresponding to the expected net profit (loss) for the year in the last year of the updated multi-year projection.

The following table shows the differentials expressed in relative terms, between the recoverable value as determined above and the value obtained, in the event of decreasing and increasing the growth rate (g) and the cost of capital (K_e) respectively by 25 bps, with respect to the rates actually used, keeping all the remaining assumptions unchanged. These analyses lead to a reduction in value in use of between a minimum of -1.6% and a maximum of -2.1%. Lastly, with reference to the cash flow considered for the purpose of determining the Terminal Value, a 25% reduction generates a reduction in value in use of -14.8%, placing itself in a more severe perspective; there would be a write-down of goodwill only in the presence of a reduction of more than 90% of the cash flows in Terminal Value.



CHANGE IN VALUE IN USE

	Long-term growth rate	Discount rate	Cash flow in Terminal Value
	(g)	(Ke)	
	-25 bps	+25 bps	-25%
Widiba CGU	-1.6%	-2.1%	-14.8%



10.2 Intangible assets: annual changes

	Goodwill	Other intangible assets: generated internally		Other intangible assets: other		Total 31 12 2023
		finite life	indefinite life	finite life	indefinite life	
A. Opening balance	6,605,132	544,303	-	2,048,368	-	9,197,803
A.1 Total net decreases	6,597,232	501,687	-	1,936,235	-	9,035,154
A.2 Net opening balance	7,900	42,616	-	112,133	-	162,649
B. Increases	-	7,199	-	75,844	-	83,043
B.1 Purchases	-	7,199	-	75,834	-	83,033
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 Exchange gains	-	-	-	-	-	-
B.6 Other increases	-	-	-	10	-	10
C. Decreases	-	16,461	-	51,007	-	67,468
C.1 Sales	-	-	-	-	-	-
C.2 Write-downs	-	16,461	-	50,823	-	67,284
- Depreciation	-	15,872	-	50,715	-	66,587
- Write-downs	-	589	-	108	-	697
+ net equity	-	-	-	-	-	-
+ profit and loss	-	589	-	108	-	697
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 Exchange losses	-	-	-	-	-	-
C.6 Other decreases	-	-	-	184	-	184
D. Net closing balance	7,900	33,354	-	136,970	-	178,224
D.1 Total net value adjustments	6,597,232	518,148	-	1,987,058	-	9,102,438
E. Gross closing balance	6,605,132	551,502	-	2,124,028	-	9,280,662
F. Carried at cost	-	-	-	-	-	-



Line F - “Carried at cost” was left blank in accordance with Bank of Italy’s instructions, as it only needs to be completed for assets measured at fair value.

10.3 Other information: amortisation rates of intangible assets

Main categories of intangible assets	%	residual depreciation period
Software	20.0% - 33.3%	
Concessions and other licenses	20.00%	

There were none of the following as at 31 December 2023:

- 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 11 - Tax Assets and Liabilities - Item 110 (Assets) and Item 60 (Liabilities)

11.1 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 2023	31 12 2022
Receivables	231,354	-	35,364	-	266,718	253,608
Receivables (L. 214/2011)	182,904	-	20,728	-	203,632	257,873
Other financial instruments	209	-	2,797	-	3,006	733
Goodwill (L. 214/2011)	239,033	926	58,493	206	298,658	298,658
Goodwill	1,810	-	367	-	2,177	2,322
Property, plant and equipment	130,760	-	19,452	-	150,212	125,978
Intangible assets	87	-	35	-	122	7
Intangible assets (Law 214/2011)	16,732	-	3,634	-	20,366	20,315
Personnel expenses	1,082	4,079	313	8	5,482	23,030
ACE surplus	15,018	-	-	-	15,018	131,471
Tax losses	637,937	48,752	-	-	686,689	107,265
Tax losses (Law 214/2011)	-	-	-	-	-	24
Financial instruments - valuation reserves	-	35,381	-	7,999	43,380	73,132
Others	227,360	392	10,178	-	237,930	307,002
Deferred tax assets (gross)	1,684,286	89,530	151,361	8,213	1,933,390	1,601,418
Offsetting with deferred tax liabilities	(16,590)	(60,212)	(2,199)	(11,864)	(90,865)	(103,288)
Deferred tax assets (net)	1,667,696	29,318	149,162	(3,651)	1,842,525	1,498,130

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 11.8 “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 Italian Law no. 208 of 28 December 2015, paragraphs 65-66.



The balance of the item shows an increase during the year; for a more detailed description of the individual effects, reference should be made to the following paragraphs of this Section.

The line “Loans” includes deferred tax assets recognised in respect of the remaining tenths of value adjustments on loans to customers recognised on first-time adoption of IFRS 9.

The line “Other” includes tax assets relating to provisions for risks and charges in respect of deductible costs expected for future financial periods and other residual items.

11.2 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 2022	Total 31 12 2021
Property, plant and equipment and intangible assets	8,912	48,238	2,266	9,345	68,761	78,824
Financial instruments	7,268	-	113	-	7,381	11,008
Personnel expenses	4,048	477	-	141	4,666	4,115
Financial instruments - valuation reserves	-	11,316	-	2,343	13,659	13,425
Others	1	1,615	-	238	1,854	2,534
Deferred tax liabilities (gross)	20,229	61,646	2,379	12,067	96,321	109,906
Offsetting with deferred tax assets	(16,590)	(60,212)	(2,199)	(11,864)	(90,865)	(103,288)
Deferred tax liabilities (net)	3,639	1,434	180	203	5,456	6,618

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 Italian Law no. 208 of 28 December 2015, paragraphs 65-66.

The line “Financial instruments – valuation reserves” includes tax liabilities relating to the valuation of cash flow hedge derivatives, as well as financial instruments classified in the portfolio “Financial assets measured at fair value through other comprehensive income” (OCI).

The balance of the item shows a decrease during the financial year; for the quantification of the individual effects, reference should be made to the following paragraphs of this Section.



11.3 Deferred tax assets: annual changes (with offsetting entry to the income statement)

	Total 31 12 2023	Total 31 12 2022
1. Opening balance	1,460,999	1,108,779
2. Increases	927,059	613,220
2.1 Deferred tax assets arising during the year	914,394	593,304
a) relating to previous years	-	-
b) due to changes in accounting principles	-	-
c) write-backs	827,194	387,074
d) other	87,200	206,230
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	12,665	19,916
3. Decreases	552,411	261,000
3.1 Deferred tax assets derecognised during the year	500,357	219,151
a) reversals	498,755	219,151
b) write-downs of non-recoverable items	1,602	-
c) changes in accounting principles	-	-
d) other	-	-
3.2 Reduction in tax rates	-	-
3.3 Other decreases	52,054	41,849
a) conversion into tax credits pursuant to Law no. 214/2011	8,567	27
b) others	43,487	41,822
4. Total	1,835,647	1,460,999

The major components of “Deferred tax assets arising during the year” as reported in line 2.1 letter d) include those concerning:

- taxed provisions to the provision for risks and charges made during the financial year;
- the write-down recorded during the year of owned properties for business use and investment purposes;

The amount shown in line 3.1 letter a) “Reversals” include deferred tax assets relating to:

- uses and reclassifications to the income statement of provisions for risks and charges taxed in previous years;
- the use of ACE surpluses to offset taxable income for the year;
- the use of past tax losses to offset taxable income for the year;
- the reversal of the portion of value adjustments on loans to customers, deductible during the year pursuant to art. 16 of Italian Law Decree 83/2015;
- the reversal of the tenth of the value adjustments on loans to customers recognised at the time of first-time adoption of IFRS 9.

The table shows the effects of the measurement of deferred tax assets based on the results of the probability test conducted as at 31 December 2023. Specifically, the amount indicated on line 2.1 letter c) “Value reversals” added to the amount indicated in table 11.6 line 2.1 letter a), is due to the overall write-back of prepaid tax assets referring to tax losses accrued and not recognised in previous financial years both with reference to IRES (in the Tax Consolidation Agreement) and to the IRES additional tax (in individual tax returns) for EUR 670.4 mln, to ACE surpluses for EUR 2.4 mln, and to other deductible temporary differences other than losses and ACE surpluses (these are DTAs that cannot be converted into tax credits pursuant to Italian Law 214/2011, such as those relating to provisions for risks and charges, IFRS 9 FTA credit adjustments, etc.) for EUR 154.4 mln. For additional information, please refer to paragraph 11.8 “Other information” below.

The amount shown in line 3.3 lett. b) “other decreases - other” includes the DTAs from ACE surpluses accrued in the 2022 tax period and transformed into an IRAP credit in the current year with the submission of the related tax return for EUR 31.7 mln.

**11.4 Deferred tax assets: changes under Italian Law 214/2011 (with offsetting entry to the income statement)**

Items/Amounts	Total	
	31 12 2023	31 12 2022
1. Opening balance	575,738	576,350
2. Increases	675	61
3. Decreases	54,889	673
3.1 Reversals	45,695	24
3.2 Conversion into tax credits	8,567	27
a) arising from loss for the period	8,547	-
b) arising from tax losses	20	27
3.3 Other decreases	627	622
4. Closing balance	521,524	575,738

As a result of the loss recorded in the separate financial statements for 2022, in 2023 the Parent Company 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 Italian Law Decree no. 225 of 29 December 2010. This conversion has been in effect since the date of approval of the 2022 financial statements by the Shareholders' Meeting held on 20 April 2023.



11.5 Deferred tax liabilities: annual changes (with offsetting entry to the income statement)

	Total 31 12 2023	Total 31 12 2022
1. Opening balance	24,796	29,236
2. Increases	4,732	11,803
2.1 Deferred tax liabilities arising during the year	1,142	10,887
a) relating to previous years	-	-
b) due to changes in accounting principles	-	-
c) other	1,142	10,887
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	3,590	916
3. Decreases	6,920	16,243
3.1 Deferred taxes derecognised during the year	4,969	8,688
a) reversals	4,969	8,688
b) due to changes in accounting principles	-	-
c) other	-	-
3.2 Reduction in tax rates	-	-
3.3 Other decreases	1,951	7,555
4. Closing balance	22,608	24,796

11.6 Deferred tax assets: annual changes (with offsetting entry to equity)

	Total 31 12 2023	Total 31 12 2022
1. Opening balance	140,419	75,015
2. Increases	10,968	75,412
2.1 Deferred tax assets arising during the year	10,905	75,350
a) relating to previous years	1,602	4,687
b) due to changes in accounting principles	-	-
c) other	9,303	70,663
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	63	62
3. Decreases	53,644	10,008
3.1 Deferred tax assets derecognised during the year	53,481	9,956
a) reversal	53,481	9,956
b) write-downs of non-recoverable items	-	-
c) due to changes in accounting principles	-	-
d) other	-	-
3.2 Reduction in tax rates	-	-
3.3 Other decreases	163	52
4. Closing balance	97,743	140,419

The cancelled deferred tax assets refer mainly to write-backs on financial instruments classified in the portfolio “Financial assets measured at fair value through other comprehensive income” (OCI).



11.6.1 Deferred tax assets: changes under Italian Law 214/2011 (with offsetting entry to equity)

Items/Amounts	Total 31 12 2022	Total 31 12 2021
1. Opening balance	1,132	1,132
2. Increases	-	-
3. Decreases	-	-
3.1 Reversals	-	-
3.2 Conversion into tax credit	-	-
a) arising from loss for the period	-	-
b) arising from tax losses	-	-
3.3 Other decreases	-	-
4. Closing balance	1,132	1,132

The table shows deferred tax assets that may be converted into tax credits pursuant to Italian Law 214/2011, recognised with an offsetting entry to equity. This refers to goodwill charged by the Parent Company to shareholders' equity as it relates to past business combinations under common control.

11.7 Deferred tax liabilities: annual changes (with offsetting entry to equity)

	Total 31 12 2023	Total 31 12 2022
1. Opening balance	85,109	115,206
2. Increases	4,105	1,609
2.1 Deferred tax liabilities arising during the year	4,022	1,039
a) relating to previous years	-	-
b) due to changes in accounting principles	-	-
c) other	4,022	1,039
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	83	570
3. Decreases	15,501	31,706
3.1 Deferred tax liabilities derecognised during the year	14,515	30,393
a) reversal	14,515	30,393
b) due to changes in accounting principles	-	-
c) other	-	-
3.2 Reduction in tax rates	-	-
3.3 Other decreases	986	1,313
4. Closing balance	73,713	85,109

The decreases shown in line 3.1, letter a) refer primarily to reabsorption of deferred tax liabilities, recognised in previous financial years, related to land and buildings, IAS 16, and cash flow hedge derivatives that occurred during the financial year.



11.8 Other information

Probability test

In compliance with the provisions of accounting standard IAS 12 and the ESMA communication of 15 July 2019, the Group recognised deferred tax assets (DTA - *Deferred Tax Asset*) after verifying the existence of future taxable income sufficient for the purposes of reabsorption of the same (so-called *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 Italian Law Decree no. 225 of 29 December 2010 (converted, with amendments, by Italian Law no. 10 of 26 February 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;
- paragraphs 61 to 66, art. 1, of the 2016 Stability Law (Italian Law no. 208 of 28 December 2015) reduced the IRES rate from 27.5% to 24% and simultaneously introduced an IRES additional tax of 3.5% for credit and financial institutions; both measures are effective as of 2017.

In particular, the valuation of the DTAs in these financial statements is affected by the repeal of the ACE provided for by art. 5 of Italian Legislative Decree 216 of 30 December 2023 with effect from 2024. The MPS Group, having carried out significant capital increases from 2011 to 2022, accrued significant amounts of ACE deductions and had the prospect of accruing them in the future, considering that the legislation establishing the subsidy in question was in force indefinitely. The MPS Group has also incurred significant consolidated tax losses in the past, in particular in 2016 and 2017, the residual amount of which as at 31 December 2023 was EUR 12.1 bn; these tax losses can be carried forward for offsetting with future taxable income without limits of amount and time and constitute the prerequisite for the recognition in the financial statements of corresponding DTAs, after verifying the existence of future taxable income. Tax losses may, however, be set off against future taxable income determined each year net of deductible portions of costs deferred from prior years (e.g., portions of loan adjustments, amortisation of goodwill and other intangible assets, etc.) and, for group taxation entities, also against the available ACE deduction. In its recent financial statements, the Group has recognised DTAs on tax losses to a minimal extent with respect to their nominal value, given that the prospective taxable income considered in the valuation time period was largely absorbed by the reversals of the deferred costs and the ACE deductions. As a result of the repeal of the ACE, the corresponding deductions accrued from 2024 onwards were no longer valid, with the consequent loss of a substantial economic benefit in terms of reduction of the tax rate in the financial statements. Nevertheless, the elimination of this benefit resulted in an increase in the ability to use said losses in the future and therefore a partial reversal of the related DTAs as a balancing entry to a non-recurring income in the income statement item, equal to EUR 545.2 mln. In other terms, future taxable income, considered over the valuation horizon, while remaining insufficient to fully recover the consolidated tax losses already accrued, increased as a result of the repeal of the ACE.

In terms of methodology, the probability test was carried out by following the steps listed below.

DTAs relating to goodwill, other intangible assets - limited to those registered before 2015 - and impairment losses and adjustments 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 Italian 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 financial year in which the recovery of qualified DTAs is expected is not sufficient to absorb them, the resulting tax loss would be convertible into a tax credit that may be, alternatively i) used to offset, with no amount limits, the various taxes ordinarily due from the Bank, or ii) requested in the form of a refund, or iii) transferred to third parties. In addition, qualified DTAs may be converted into tax credit in advance of their natural maturity, in the event of a loss for the year in the statutory financial statements or voluntary liquidation, as well as subjection to bankruptcy proceedings.

In other words, for qualified DTAs the Probability test must be deemed automatically satisfied; this is also confirmed by the joint Bank of Italy, CONSOB and ISVAP document no. 5 of 15 May 2012 "Accounting treatment of deferred tax assets deriving from Italian Law 214/2011".



For DTAs other than qualified DTAs, the financial year in which the relative recovery is expected has been identified (or estimated when uncertain).

Estimates of taxable income for future financial years were made, consistent with the other relevant corporate valuation processes, on the basis of the expected evolution of the Group's profit and loss accounts derived from the income projections included in the 2022-2026 Group Business Plan, approved by the Parent Company's Board of Directors on 22 June 2022. However, it should be noted that, from a prudential perspective, for the purposes of this assessment, the economic results of 2025 and 2026 outlined in the aforementioned Business Plan were not considered, thus limiting the expected positive evolution in future periods to that resulting from the data forecast for 2024; for the estimate of taxable income for the financial years after 2026, a growth of 1.35% was assumed for each year starting from 2027 compared to the economic result forecast for the immediately previous financial year.

In order to reflect the level of uncertainty that characterises the actual realisation of long-term forecasts, a discount factor was applied to the forecast economic results (known as Risk-adjusted profits approach) of 9%, unchanged from that used for the Financial Statements as at 31 December 2022. This factor is also calculated taking into account observable market parameters. In greater detail, the adjustment of taxable income is obtained by discounting the forecasts of each year by the factor of 9%, applied according to the compound capitalisation formula, starting from 2024 over a maximum time horizon of 20 years. This formula therefore makes it possible to adjust future forecasts according to an increasing reduction factor based on the time horizon of the estimate of taxable flows.

Taxable income was estimated:

- at domestic tax consolidation level, for the IRES Probability test, since the Group's most significant companies pay this tax in accordance with articles 117 et seq. of the Income Tax Act (TUIR);
- at individual level for IRES additional tax;
- at individual level for IRAP.

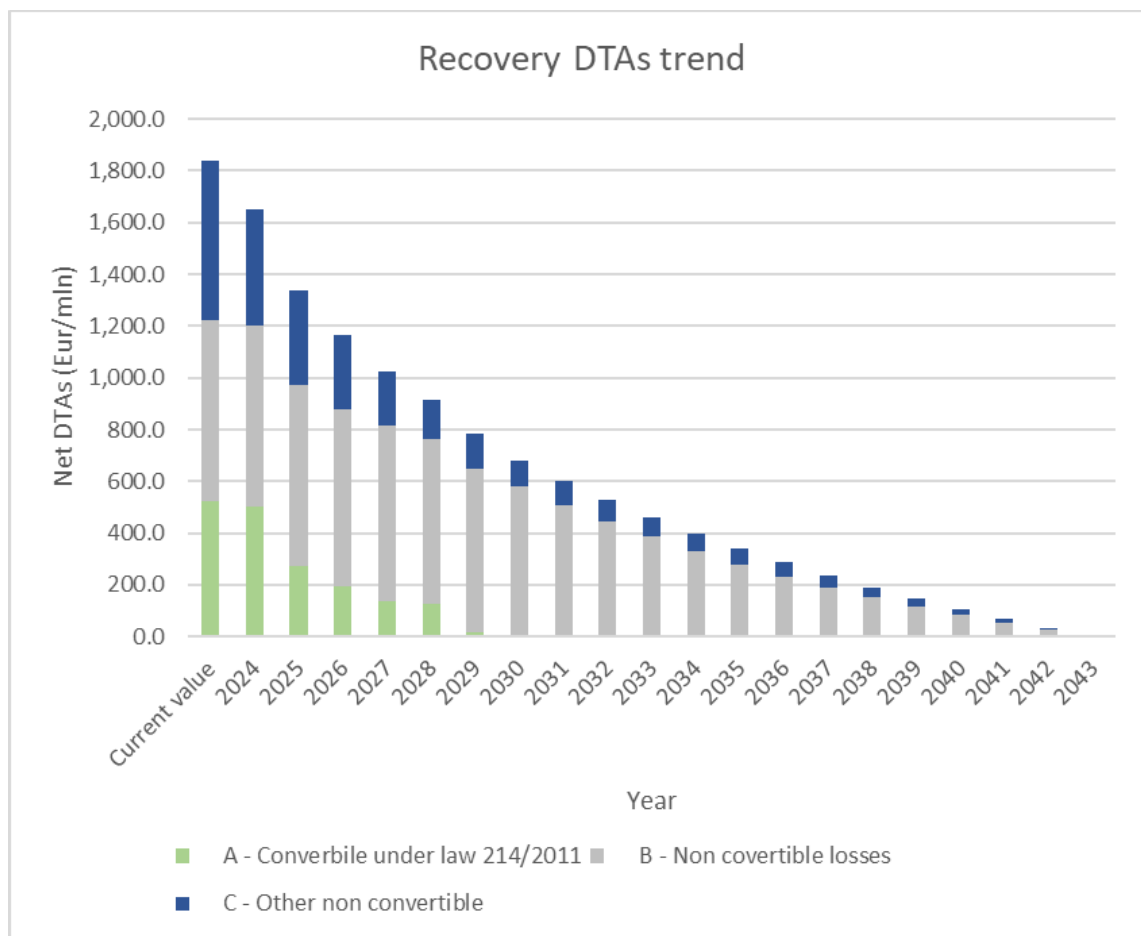
The valuation exercise conducted with the model described above has resulted in an overall increase in value of DTAs for EUR 827.2 mln, with the following effects on the Group's accounts:

- with reference to the DTAs for consolidated tax losses, a revaluation of EUR 639.1 mln (of which EUR 545.2 mln due to the repeal of the ACE);
- with reference to DTAs for tax losses for purposes of additional IRES, a revaluation of EUR 31.3 mln;
- with reference to DTAs for ACE surpluses, a revaluation of EUR 2.4 mln;
- with regard to DTAs other than "qualified" DTAs and those relating to ACE and tax losses, a total recovery in value equal to EUR 154.4 mln.

As a result of the aforementioned valuation, the Group had DTAs not stated as assets in the Balance Sheet, totalling EUR 2,575.7 mln as at 31 December 2023 (EUR 3,398.6 mln as at 31 December 2022).

For the Group, this amount is a potential asset not subject to any time limits according to current tax legislation, with the exception of the limits to carrying forward, in case of extraordinary transactions, envisaged by art. 172 and 173 of Italian Presidential Decree no. 917/1986; the relative recognition in the balance sheet assets will be evaluated at the future reporting dates based on the Group's profit outlook.

The Group's tax losses, equal to EUR 12,103 mln, was accrued mainly in 2016 and 2017, corresponding to the start of the Group's restructuring process, and derives essentially from significant loan adjustments for both years. In particular, for 2016 the methodologies and parameters used in measuring loans had to be updated and for 2017 the realisable value of non-performing loans sold during 2018 had to be adjusted. Therefore, pursuant to the provisions of IAS 12, paragraph 36, letter c), also taking into account the Group's high profitability, it is believed that these unused tax losses derive from "identifiable causes that are unlikely to recur" and in this sense have been included in the valuation process for DTAs that can be partially recognised in financial statements. The following chart shows the expected trend related to the recovery of DTAs recognised in the Financial Statements as at 31 December 2023, both quantitatively and over time, broken down between convertible DTAs pursuant to Italian Law 214/2011, DTAs from non-convertible losses and other non-convertible DTAs.



The probability test model in use in MPS Group includes some input data whose fluctuations in value can significantly influence the final result of the DTA valuation recognised in financial statements. Specifically, these are:

- 1) taxable income forecast in the plan's final year (2024)⁴⁶;
- 2) discount rate of future results (coefficient used in the risk-adjusted profits approach)
- 3) tax rates for IRES, additional IRES and IRAP.

Certain relevant indications on the sensitivity of the results of the valuation model are provided below, assuming both an increase and decrease in each of the input data listed above. The effects shown in the table refer to the difference that would have occurred for the tax item of the 2023 income statement, compared to what was actually recognised, changing the individual variable as indicated; the change in taxable income is understood to apply to the amount indicated for each financial year of the time horizon (twenty years) considered in the probability test.

⁴⁶ Considering that in the probability test as at 31 December 2023, the economic results of 2025 and 2026 (the last year of the plan time period) were conservatively assumed to be equal to the (lower) expected result for 2024, the latter can essentially be considered as the decisive input for the fluctuation in the value of the DTAs in question. Consequently, the sensitivity of the results of the valuation model illustrated below was obtained by assuming the change in taxable income in 2024.



Inputs	Decrease	Effect on income statement of decrease in DTAs (Eur/ mln)	Increase	Effect on income statement of increase in DTAs (Eur/ mln)
2024 taxable income	-100 mln	-166.8	+100 mln	169.3
Discount rate of prospective results	-1%	97.3	+1%	-84.1
IRES tax rate	-1%	-61.1	+1%	61.1

Current tax assets

Items/Amounts	Total 31 12 2023	Total 31 12 2022
Prepayments of corporate income tax (IRES and IRAP)	476	2,438
Other tax credits and withholdings	375,653	717,138
Gross current tax assets	376,129	719,576
Offsetting with current tax liabilities	(67,748)	(1,329)
Net current tax assets	308,381	718,247

“Other tax credits and withholdings” consist of income IRES/IRAP credits resulting from prior tax returns which can be used as a set-off, income tax credits claimed for refund, the tax credit arising from DTA transformation, Italian Law no. 214/2011, for the residual amount yet to be used and tax withholdings incurred.

Current tax liabilities

Items/Amounts	31 12 2023			31 12 2022		
	Booked to net equity	Booked to P&L	Total	Booked to net equity	Booked to P&L	Total
Corporate income tax (IRES IRAP) payables	(14,069)	85,413	71,344	-	1,340	1,340
Other current income tax payables	-	5	5	-	5	5
Gross current tax payables	(14,069)	85,418	71,349	-	1,345	1,345
Offsetting with current tax asset	(1,767)	69,515	67,748	-	1,329	1,329
Net current tax payables	(12,302)	15,903	3,601	-	16	16



Section 12 - Non-current assets held for sale and disposal groups and associated liabilities - Item 120 (assets) and 70 (liabilities)

12.1 Non-current assets held for sale and disposal groups: breakdown by type of assets

	31 12 2023	31 12 2022
A. Individual assets		
A.1 Financial assets	457	46
A.2 Equity investments	-	-
A.3 Property, plant and equipment	75,775	65,451
<i>of which: obtained through the enforcement of the guarantees received</i>	-	-
A.4 Intangible assets	-	-
A.5 Other non-current assets	-	-
Total A	76,232	65,497
<i>of which valued at cost</i>	-	-
<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>	76,232	65,497
B. Asset groups (discontinued operations)	-	-
C. Liabilities associated with individual assets held for sale	-	-
D. Liabilities associated with discontinued operations	-	-

Line “A.1 Financial assets”, amounting to EUR 0.5 mln, refers entirely to the sale of an equity security, the closing of which is expected within the first half of 2024.

Line “A.3 Tangible assets”, equal to EUR 75.8 mln, includes tangible assets held for investment purposes for EUR 45.0 mln, as well as tangible assets held for functional use in the amount of EUR 29.7 mln, and other tangible assets for EUR 0.2 mln. The same item also includes EUR 0.9 mln relating to works of art classified under IAS 16 and EUR 0.2 mln relating to inventories of tangible assets classified under IAS 2.

In February 2024, the sale of a property, including the works of art therein, was finalised, classified as at 31 December 2023 among assets under disposal for a total value of EUR 30.0 mln.

At the reporting date or for the financial year of comparison, there are no equity securities of clearly poor credit quality.



12.2 Other information

At the reporting date, there is no information to report pursuant to IFRS 5.42. There are also no “Discontinued operations”.

Section 13 - Other assets - Item 130

13.1 Other assets: breakdown

	Total 31 12 2023	Total 31 12 2022
Tax credits from the Revenue and other tax levying authorities	1,889,170	1,000,046
Third party cheques held at the cashier's for collection	5,678	3,645
Cheques drawn on the Company held at the cashier's for collection	982	717
Gold, silver and precious metals	95,369	100,100
Property inventory	-	-
Items in transit between branches	2,649	573
Items in processing	726,011	505,542
Receivables associated with the provision of goods and services	5,811	33,564
Improvements and incremental costs on third party assets other than those included under tangible assets	17,069	31,924
Prepaid expenses and accrued income not attributable to other line items	523,278	512,071
Biological assets	2,037	2,173
Other	251,430	193,258
Total	3,519,484	2,383,613

The lines “Items in processing” and “Other” include transactions which were cleared in early 2023.

The line “Tax credits from the Revenue and other tax levying authorities” includes EUR 1,660.3 (EUR 738.2 mln as at 31 December 2022) pertaining to tax credits, pursuant to the “Rilancio” Italian Law Decree acquired as a result of a transfer by direct beneficiaries or previous purchasers.

The line “Accrued income and prepaid expenses not attributable to its own separate item” includes a total of EUR 242.0 mln (EUR 250.7 mln as at 31 December 2022) as prepaid expenses for back office services outsourced, provided by suppliers continuously over the contract term and financially settled by the Group with decreasing amounts over time. For further details on the methods for identifying these types of services, please refer to Part A, paragraph “Other Information - Costs for constant services and decreasing payments” of these Notes to the Financial Statements.

The line “Other” also includes EUR 1.2 mln relating to recruitment incentives awarded to financial advisors upon achievement of funding targets, connected to the conclusion of new contracts with customers, which qualify as incremental costs for obtaining of the contract pursuant to IFRS 15. The assets attributable to these costs are systematically amortised over a time period corresponding to the transfer to the customer of the goods or services to which the asset refers, estimated at eight years.

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 financial year, which would require disclosure pursuant to IFRS 15.116 and 118.



LIABILITIES

Section 1 - Financial liabilities measured at amortised cost - Item 10

1.1 Financial liabilities measured at amortised cost: breakdown of deposits from banks

Items/accounts	Total 31 12 2023				Total 31 12 2022			
	Book value	Fair value			Book value	Fair value		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
1. Due to Central banks	13,148,229	X	X	X	19,176,864	X	X	X
2. Due to banks	1,350,604	X	X	X	2,205,895	X	X	X
2.1 Current accounts and demand deposits	288,575	X	X	X	199,120	X	X	X
2.2 Time deposits	1,215	X	X	X	3,900	X	X	X
2.3 Loans	185,622	X	X	X	669,031	X	X	X
2.3.1 Repurchase agreements	138,188	X	X	X	626,869	X	X	X
2.3.2 Other	47,434	X	X	X	42,162	X	X	X
2.4 Liabilities for commitments to repurchase own equity instruments	-	X	X	X	-	X	X	X
2.5 Lease liabilities	426	X	X	X	428	X	X	X
2.6 Other liabilities	874,766	X	X	X	1,333,416	X	X	X
Total	14,498,833	-	14,498,833	-	21,382,759	-	21,382,759	-

The balance of the item “Due to central banks” of EUR 13.1 bn (EUR 19.2 bn as at 31 December 2022) refers to funding from the ECB consisting of TLTRO III loans for EUR 5.6 bn and two short-term loans (MRO/LTRO) for a total of EUR 7.5 bn subscribed in two auctions in 2023. The reduction of EUR 6.1 bn is due to the repayment of the TLTRO III tranche maturing in June and September 2023 for a total of EUR 14 bn, partly offset by the aforementioned MRO/LTRO auctions.

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

Type of transactions/Amounts	Total 31 12 2023					Total 31 12 2022				
	Book value	Fair value			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	65,446,276	X	X	X	65,783,271	X	X	X		
2. Time deposits	4,605,312	X	X	X	4,331,135	X	X	X		
3. Loans	9,051,306	X	X	X	1,961,244	X	X	X		
3.1 Reverse repurchase agreements	6,565,131	X	X	X	559,430	X	X	X		
3.2 Others	2,486,176	X	X	X	1,401,814	X	X	X		
4. Liabilities for commitments to repurchase own equity instruments	-	X	X	X	-	X	X	X		
5. Lease liabilities	190,730	X	X	X	210,765	X	X	X		
6. Other liabilities	1,128,457	X	X	X	1,063,211	X	X	X		
Total	80,422,081	-	80,422,081	-	73,349,626	-	73,349,626	-		

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 2023					31 12 2022				
	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	9,969,331	8,715,149	1,411,629	-	10,126,778	8,543,804	4,245,320	4,012,166	-	8,257,486
1.1 Structured	-	-	-	-	-	-	-	-	-	-
1.2 Other	9,969,331	8,715,149	1,411,629	-	10,126,778	8,543,804	4,245,320	4,012,166	-	8,257,486
2. Other securities	136,282	-	136,282	-	136,282	7,201	-	7,201	-	7,201
2.1 Structured	-	-	-	-	-	-	-	-	-	-
2.2 Other	136,282	-	136,282	-	136,282	7,201	-	7,201	-	7,201
Total	10,105,613	8,715,149	1,547,911	-	10,263,060	8,551,005	4,245,320	4,019,367	-	8,264,687

The table shows funding represented by securities, including bonds and certificates of deposit (outstanding and expired) to be repaid.

Liabilities are net of bonds and repurchased CDs. In this regard, it should be noted that as at 31 December 2023, as in the previous financial year, the Group has no outstanding issues with a State guarantee.

The table includes EUR 3,458.3 mln in liabilities subject to fair value micro-hedging (EUR 5,138.5 mln as at 31 December 2022), to hedge interest rate risk.



1.4 Details of subordinated liabilities/securities

Type/Item	Date of issue	Date of maturity	Early repayment starting from	Grand-fathering	Currency	Rate	Step up	31 12 2023		31 12 2022	
								Nominal value	book value	Nominal value	book value
Subordinated loans to bank											
Subordinated loans to customers											
Subordinated debts securities issued											
Subordinated bond loan	18/01/18	18/01/28	18/01/23	NO	Eur	5.375% fixed*	NO	750,000	820,993	750,000	787,984
Subordinated bond loan	23/07/19	23/07/29	NO	NO	Eur	10.5% fixed	NO	300,000	311,448	300,000	311,218
Subordinated bond loan	22/01/20	22/01/30	22/01/25	NO	Eur	8.0% fixed	NO	400,000	427,992	400,000	427,774
Subordinated bond loan	10/09/20	10/09/30	10/09/25	NO	Eur	8.5% fixed	NO	300,000	304,179	300,000	303,836
Total								1,750,000	1,864,611	1,750,000	1,830,812

* 5.375% until 18 January 2023, subsequently 5Y EUR mid-swap rate + 5.005%

1.5 Details of structured liabilities

This table was not completed as the Group has no such liabilities to report for either the current or the previous year.

1.6 Lease payables

Type of transactions/Amounts	31 12 2023	31 12 2022
Lease liabilities	196,933	222,329
Future minimum lease payment included in lease liabilities not discounted up to 5 years	153,947	182,038
Up to 1 month	6,693	7,875
from 1 to 3 months	4,829	4,879
from 3 months to 1 year	32,383	36,371
from 1 to 5 years	110,042	132,913
Not discounted outgoing cash flow for lease liabilities over to 5 years	42,986	40,291

The table shows the non-discounted outgoing cash flows for lease liabilities broken down by time bracket.



Section 2 - Financial liabilities held for trading - Item 20

2.1 Financial liabilities held for trading: breakdown

Type of transaction/ Group item	NV	Total 31 12 2023				FV*
		FV				
		Level 1	Level 2	Level 3	Total	
A. Balance-sheet liabilities						
1. Due to banks	451,366	442,450	-	-	442,450	442,450
2. Due to customers	1,323,784	1,380,748	-	-	1,380,748	1,380,748
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	1,775,150	1,823,198	-	-	1,823,198	1,823,198
B. Derivatives						
1. Financial derivatives		-	936,636	2,868	939,504	
1.1 Trading	X	-	936,636	2,868	939,504	X
1.2 Fair value option (FVO)	X	-	-	-	-	X
1.3 Other	X	-	-	-	-	X
2. Credit derivatives		-	92,019	-	92,019	
2.1 Trading	X	-	92,019	-	92,019	X
2.2 Fair value option (FVO)	X	-	-	-	-	X
2.3 Other	X	-	-	-	-	X
Total B	X	-	1,028,655	2,868	1,031,523	X
Total (A+B)	X	1,823,198	1,028,655	2,868	2,854,721	X

key

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.3, “Information on fair value” of Part A, “Accounting policies” of the notes to the financial statements.

The amounts classified in lines “1. Due to banks” and “2. Due to Customers” are related primarily to those in lines “1. Debt securities” and “4. Loans” in table 2.1 of the assets “Financial assets held for trading”. Please also note that the sub-items “Due to banks” and “Due to customers”, mentioned above, also incorporate uncovered short positions. They are designated at fair value in line with the method applied for “long” positions.

The fair value shown in the table in line B1.1.1 “Financial derivatives for trading” calculated on financial derivatives includes value adjustments owing to changes in the Group’s creditworthiness, Debit Value Adjustment (i.e. DVA), totalling EUR 9.3 mln (EUR 29.8 mln as at 31 December 2022).



Type of transaction/ Group item	NV	Total 31 12 2022				FV*
		FV				
		Level 1	Level 2	Level 3	Total	
A. Balance-sheet liabilities						
1. Due to banks	306,483	318,068	-	-	318,068	318,068
2. Due to customers	2,185,430	2,249,116	-	-	2,249,116	2,249,116
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	2,491,913	2,567,184	-	-	2,567,184	2,567,184
B. Derivatives						
1. Financial derivatives		-	1,274,530	4,031	1,278,561	
1.1 Trading	X	-	1,274,530	4,031	1,278,561	X
1.2 Fair value option (FVO)	X	-	-	-	-	X
1.3 Other	X	-	-	-	-	X
2. Credit derivatives		-	142,772	-	142,772	
2.1 Trading	X	-	142,772	-	142,772	X
2.2 Fair value option (FVO)	X	-	-	-	-	X
2.3 Other	X	-	-	-	-	X
Total B	X	-	1,417,302	4,031	1,421,333	X
Total (A+B)	X	2,567,184	1,417,302	4,031	3,988,517	X

key

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 has not been completed as the Group 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 has not been completed as the Group has no such liabilities to report for either the current or the previous year.



Section 3 - Financial liabilities measured at fair value - Item 30

3.1 Financial liabilities measured at fair value: breakdown

Type of transaction / Amount	Total 31 12 2023					
	NV	FV				FV*
		Level 1	Level 2	Level 3	Total	
1. Due to banks	-	-	-	-	-	-
1.1 Structured	-	-	-	-	-	X
1.2 Other	-	-	-	-	-	X
2. Due to customers	-	-	-	-	-	-
2.1 Structured	-	-	-	-	-	X
2.2 Other	-	-	-	-	-	X
3. Debt securities issued	70,441	-	111,325	-	111,325	123,789
3.1 Structured	-	-	-	-	-	X
3.2 Other	70,441	-	111,325	-	111,325	X
Total	70,441	-	111,325	-	111,325	123,789

key

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 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.

In the income statement, positive and negative spreads or margins relative to derivative contracts until the reporting 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 or 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 Group's liabilities are not offset in the income statement by a change in

the fair value of another financial instrument measured at fair value through profit or loss for the year.

Type of transaction / Amount	Total 31 12 2022					
	NV	FV				FV*
		Level 1	Level 2	Level 3	Total	
1. Due to banks	-	-	-	-	-	-
1.1 Structured	-	-	-	-	-	X
1.2 Other	-	-	-	-	-	X
2. Due to customers	-	-	-	-	-	-
2.1 Structured	-	-	-	-	-	X
2.2 Other	-	-	-	-	-	X
3. Debt securities issued	68,850	-	97,027	-	97,027	113,604
3.1 Structured	-	-	-	-	-	X
3.2 Other	68,850	-	97,027	-	97,027	X
Total	68,850	-	97,027	-	97,027	113,604

key

NV = Nominal or Notional Value

FV = Fair Value

FV* = Fair value calculated excluding value adjustments due to variations in the credit rating of the issuer since the date of issue



3.1.a Financial liabilities measured at fair value: fair value option approach

All liabilities for which the fair value option was adopted refer to natural hedges through debt security derivatives for a book value of EUR 111.3 mln, as compared to EUR 97.0 mln in the previous financial year.

3.1.b Financial liabilities measured at fair value: structured debt securities

This statement is not completed because for both the current year and the comparative year, the Group has no structured bonds issued and subject to fair value measurement.

3.2 Details of “Financial liabilities measured at fair value”: subordinated liabilities

This table was not completed as the Group 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 hedging and underlying asset

	Fair value 31 12 2023				NV
	Level 1	Level 2	Level 3	Total	
A. Financial derivatives	-	330,193	-	330,193	3,559,875
1) Fair value	-	330,193	-	330,193	3,559,875
2) Cash flows	-	-	-	-	-
3) Foreign investments	-	-	-	-	-
B. Credit derivatives	-	-	-	-	-
1) Fair value	-	-	-	-	-
2) Cash flows	-	-	-	-	-
Total	-	330,193	-	330,193	3,559,875

key

NV = Nominal or Notional Value

	Fair value 31 12 2022				NV
	Level 1	Level 2	Level 3	Total	
A. Financial derivatives	-	301,568	-	301,568	3,794,641
1) Fair value	-	301,568	-	301,568	3,794,641
2) Cash flows	-	-	-	-	-
3) Foreign investments	-	-	-	-	-
B. Credit derivatives	-	-	-	-	-
1) Fair value	-	-	-	-	-
2) Cash flows	-	-	-	-	-
Total	-	301,568	-	301,568	3,794,641

key

NV = Nominal or Notional Value

The table displays the negative 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 2 - Market risks in Part E - Information on risks and hedging policies.



4.2 Hedging derivatives: breakdown by hedged portfolios and type of hedging

Transaction/Type of hedge	Fair Value						Cash flow Hedge			Foreign investments	Total 31 12 2023
	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 measured at fair value through other comprehensive income	382	-	-	-	X	X	X	-	X	X	382
2. Financial assets measure at amortised cost	244,676	X	42,905	-	X	X	X	-	X	X	287,581
3. Portfolio	X	X	X	X	X	X	42,230	X	-	X	42,230
4. Other transaction	-	-	-	-	-	-	X	-	X	-	-
Total assets	245,058	-	42,905	-	-	-	42,230	-	-	-	330,193
1. Financial liabilities	-	X	-	-	-	-	X	-	X	X	-
2. Portfolio	X	X	X	X	X	X	-	X	-	X	-
Total liabilities	-	-	-	-	-	-	-	-	-	-	-
1. Expected transactions	X	X	X	X	X	X	X	-	X	X	-
2. Financial assets and liabilities portfolio	X	X	X	X	X	X	-	X	-	-	-
Total	245,058	-	42,905	-	-	-	42,230	-	-	-	330,193

The tables show the negative fair values of hedging derivatives, classified by hedged assets or liabilities and type of hedging implemented.

In particular, on the assets side, fair value micro-hedging was used to hedge against interest rate risk on bonds classified in the portfolio “Financial assets measured at fair value through other comprehensive income” and on securities and loans classified in the portfolio “Financial assets measured at amortised cost”, in order to protect them from unfavourable interest rate changes. Fair value macro-hedging was carried out on fixed-rate and cap/floor 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 to the financial statements for each section of the balance sheet items to which the hedged items are posted.



Transaction/Type of hedge	Fair Value						Cash flow Hedge			Foreign investments	Total 31 12 2022
	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 measured at fair value through other comprehensive income	3,444	-	-	-	X	X	X	-	X	X	3,444
2. Financial asset measured at amortised cost	206,476	X	54,861	-	X	X	X	-	X	X	261,337
3. Portfolio	X	X	X	X	X	X	36,787	X	-	X	36,787
4. Other transaction	-	-	-	-	-	-	X	-	X	-	-
Total assets	209,920	-	54,861	-	-	-	36,787	-	-	-	301,568
1. Financial liabilities	-	X	-	-	-	-	X	-	X	X	-
2. Portfolio	X	X	X	X	X	X	-	X	-	X	-
Total liabilities	-	-	-	-	-	-	-	-	-	-	-
1. Expected transactions	X	X	X	X	X	X	X	-	X	X	-
2. Financial assets and liabilities portfolio	X	X	X	X	X	X	-	X	-	-	-
Total	209,920	-	54,861	-	-	-	36,787	-	-	-	301,568

Section 5 - Changes in value of macro-hedged financial liabilities - Item 50

5.1 Change in value of hedged liabilities: breakdown by hedged portfolios

Fair value change of financial liabilities in hedged portfolios / Values	Total 31 12 2023	Total 31 12 2022
1. Positive fair value change of financial liabilities	-	-
2. Negative fair value change of financial liabilities	(16,081)	(77,363)
Total	16,081	-77,363

The balance of changes in value of the liabilities subject to macro-hedging of interest rate risk is recognised in this item.

The decrease in the value adjustment of financial liabilities subject to macro hedging is due to the sharp rise in market rates during the financial year which resulted in a decrease in the fair value of the financial liabilities against increases in the value of the related hedging derivatives.

Section 6 – Tax liabilities – Item 60

For comments on tax liabilities please refer to “Section 10 - Tax assets and tax liabilities” of the balance sheet assets.

Section 7 – Liabilities associated with disposal groups – Item 70

For the details of the liabilities associated with disposal groups, please refer to “Section 11 - Non-current assets and disposal groups and associated liabilities” of the balance sheet assets.



Section 8 – Other liabilities – Item 80

8.1 Other liabilities: breakdown

	Total 31 12 2023	Total 31 12 2022
Due to the Revenue and other tax levying authorities	217,756	167,961
Due to social security authorities	740,324	967,711
Amounts available to customers	95,871	105,974
Other amounts due to employees	10,210	34,129
Items in transit between branches	8,113	25,146
Items in processing	961,236	757,476
Payables in relation to the payment of supplies of goods and services	195,624	197,853
Accrued expenses and unearned revenues not attributable to other line items	53,283	46,747
Other	986,183	885,905
Total	3,268,600	3,188,902

Sub-items “Items in processing” and “Other” include transactions which were cleared during the first days of 2024.

The amount recognised under the sub-item “Payables to social security institutions” includes the funding of EUR 682.3 mln in favour of the Solidarity Fund, net of the payment of the related contribution portion, made by the Group for the management of staff reduction.

For the disclosures pursuant to IFRS 15.116 and IFRS 15.118, please refer to section 13 of the assets.

Section 9 – Provision for employee severance pay – Item 90

9.1 Provision for employee severance pay: annual changes

	Total 31 12 2023	Total 31 12 2022
A. Opening balance	70,210	159,331
B. Increases	4,798	3,082
B.1 Provision for the year	2,727	2,708
B.2 Other increases	2,071	374
C. Decreases	3,023	92,203
C.1 Severance payments	2,711	77,291
C.2 Other decreases	312	14,912
D. Closing balance	71,985	70,210

9.2 Other information

Provision for employee severance pay is considered as a defined benefit fund for the purpose of international accounting standards.

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 Italian 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 liabilities during the financial year: severance pay

Item/Amount	Present value of DBO	
	31 12 2023	31 12 2022
Opening balance	70,210	159,331
Current service cost	28	37
Interest income/expense	2,698	2,670
Remeasurement of net defined benefit liability (asset):	1,980	(12,666)
Actuarial gains (losses) arising from changes in demographic assumptions	(1)	14
Actuarial gains (losses) arising from experience adjustments	(272)	4,182
Actuarial gains (losses) arising from changes in financial assumptions	2,253	(16,862)
Payments from plan	(2,711)	(77,291)
Other changes	(220)	(1,871)
Closing balance	71,985	70,210

The table above reports the information required by paragraphs 140 and 141 of IAS 19.

9.2.b Key actuarial assumptions used

Key actuarial assumptions/percentage	31 12 2023	31 12 2022
Discount rates	2.96% - 3.26%	3.48% - 3.69%
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 2023		31 12 2022	
	Change in DBO	Change (%) in DBO	Change in DBO	Change (%) in DBO
Discount rates				
Increase of 0.25%	(1,242)	-1.73%	(1,239)	-1.76%
Decrease of 0.25%	1,215	1.69%	1,243	1.77%



Section 10 – Provisions for risks and charges – Item 100

10.1 Provisions for risks and charges: breakdown

Item/Amount	Total 31 12 2023	Total 31 12 2022
1. Provision for credit risk on commitments and financial guarantees issued	154,276	138,923
2. Provision for other commitments and guarantee issued	-	3,551
3. Pensions and other post-retirement benefit obligations	3,381	26,592
4. Other provisions for risks and charges	820,598	1,346,423
4.1 legal disputes	464,360	886,434
4.2 personnel charges	66,048	53,419
4.3 other	290,190	406,570
Total	978,255	1,515,489

With reference to line 3. Company pension funds, the reduction in the provision is due to the performance in 2023 of the merger operation of defined benefit pension schemes into the Section B of the Monte dei Paschi di Siena Pension Fund as part of the company pension reform process launched in 2019. For further details, please refer to section 10.5 Defined benefit company pension funds.

For further details of the sub-item 4 “other provisions for risks and charges”, 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 2023			
	Provisions for commitments and other guarantees issued	Pensions and other post- retirement benefit obligations	Other provisions	Total
A. Opening balance	3,551	26,592	1,346,423	1,376,566
B. Increases	-	70	193,243	193,313
B.1 Provision for the year	-	70	158,666	158,736
B.2 Changes due to the time value of money	-	-	31,721	31,721
B.3 Changes due to discount rate changes	-	-	2,497	2,497
B.4 Other increases	-	-	359	359
C. Decreases	3,551	23,281	719,068	745,900
C.1 Use during the year	-	470	98,301	98,771
C.2 Changes due to discount rate changes	-	593	4,375	4,968
C.3 Other decreases	3,551	22,218	616,392	642,161
D. Closing balance	-	3,381	820,598	823,979



10.2-bis Other provisions for risks and charges: annual changes

Item/Amount	Total 31 12 2023			
	Provision for Tax and legal disputes	Provision for personnel changes	Other Provisions	Total
A. Opening balance	886,434	53,419	406,570	1,346,423
B. Increases	117,212	29,251	46,780	193,243
B.1 Provision for the year	87,979	27,858	42,829	158,666
B.2 Changes due to the time value of money	26,799	1,373	3,549	31,721
B.3 Changes due to discount rate changes	2,434	20	43	2,497
B.4 Other increases	-	-	359	359
C. Decreases	539,285	16,622	163,161	719,068
C.1 Use during the year	34,841	11,474	51,986	98,301
C.2 Changes due to discount rate changes	3,651	142	582	4,375
C.3 Other decreases	500,793	5,006	110,593	616,392
D. Closing balance	464,361	66,048	290,189	820,598

Line C.3 “Other changes” in the columns “Provisions for legal and tax disputes” and “other provisions” includes reversals related to the significant improvement in the risk profile of judicial, civil and criminal proceedings, respectively, and out-of-court requests for financial information disclosed in the period 2008-2015, following favourable rulings in the last quarter of 2023.

For further details, please refer to Section 5 “Operational risks” of Part E of the Notes to the consolidated financial statements.

10.3 Provisions for credit risk relative to commitments and financial guarantees given

	Provisions for loans commitments and other financial guarantees issued				
	Stage 1	Stage 2	Stage 3	Purchased or originated credit impaired financial assets	Total 31 12 2023
Commitments to disburse funds	8,822	3,467	-	-	12,289
Financial guarantees issued	8,472	12,759	113,350	7,406	141,987
Total 31 12 2023	17,294	16,226	113,350	7,406	154,276
Total 31 12 2022	14,331	14,739	102,200	7,653	138,923

10.4 Provisions on other commitments and guarantees given

As at 31 December 2023, the Group does not have any provisions for these types of commitments and guarantees (EUR 3.6 mln as at 31 December 2022).



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 of the Parent Company and the Group companies, i.e. funds in which the obligation of future payment of retirement benefits is undertaken by the funds and indirectly by the Parent Company, which may be called upon 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 Parent Company relies on analyses carried out by an independent certified actuary.

In accounting for plans, the determination of the surplus or deficit is estimated through the use of the actuarial methodology of the “projected unit credit method”; therefore, the fair value of the plan assets, if any, was deducted from the current value of the obligation, as shown in the statement of financial position. For more information, see Part A of these Notes to the financial statements.

The valuations concerned the participating employees, whether retired or active (who form a closed group) at the date of valuation, and were carried out on the basis of these groups of employees as measured in December 2023.

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:

- technical mortality basis: using death probability data as provided in ISTAT's 2022 tables, broken down by gender and age, with mortality reduced by 30% for the funds and by 25% for the “Cassa di Previdenza Aziendale” [Pension Fund] for the staff of Monte dei Paschi di Siena based on longevity risk;
- economic-financial basis: using as annual relative interest rate the interpolated EUR Composite AA rate curve as at 31 December 2023.

For each defined benefit plan, the balance sheet equity resulting from valuations carried after reconciliation of actuarial assets and liabilities as at 31 December 2023 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 defined benefit funds, in which the Parent Company is co-obliged within the limits set out in the by-laws or in the regulations of each fund, are independent external funds.

In 2023, as part of the complete pension reform process launched in 2019, the Group has carried out the merger of the defined benefit pension forms still present in section B of the Monte dei Paschi di Siena Pension Fund, without prejudice to the maintenance of the commitment for the future to cover any deficiencies in coverage necessary for the disbursement of social security benefits by the MPS Fund. The transaction, effective as of 1 January 2023, pursues the objectives of simplifying the governance of the funds, streamlining operational management, also in line with the directions of the Supervisory Authority, and reducing the actuarial risks to which the Group is exposed. There were a total of nine pension funds involved in the transaction as a whole, of which:

- 7 internal funds, of which 5 unfunded (FORMER SERIT, FORMER BOB, FORMER COOPER, FORMER BPV, FORMER MPSCS) and 2 funded (FORMER BT and FORMER BNA);
- 2 external funds, with legal personality (FORMER BAM and FORMER BAV).

In substance, the transaction involved:

- the transfer to the MPS Fund of monetary resources equal to the mathematical reserves of the funds at the effective date and the simultaneous release of the segregated assets in the financial statements for the funded funds;
- the simultaneous recognition to valuation reserves of surpluses, i.e. the excess of the assets of the funded funds over the mathematical reserves;



The valuation of the mathematical reserves for the purposes of the transaction was carried out with reference to the effective date by an external actuary on the basis of parameters updated to take into account the demographic evolution of the population of members, the updated mortality tables recently published by INPS and the evolution of discount and inflation rates.

As a result of the transfer of funds, the Group has recognised for accounting purposes the write-off of net liabilities for defined-benefit plans under item 100 - Provisions for Risks and Charges in the amount of EUR 22.7 mln and a positive impact on the shareholders' equity for approximately EUR 8 mln, gross of the relevant tax effects, under item 140 - Valuation Reserves.

This operation does not change the Parent Company's pension obligations, which will therefore recognise as net liabilities when there is a capital deficit in the MPS Fund and similarly, recognises net assets when there is a surplus.

All funds transferred were cancelled from the Register at the request of COVIP.

Monte dei Paschi di Siena Pension Fund

(Bank Register no. 1643)

The Fund has legal status and full independence in terms of capital and operation.

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 Parent Company and others are appointed by the participants) supported by the General Manager.

The Parent Company provides, free of charge, the employees, premises and other resources required for the autonomous management of the Fund and incurs all the related costs and expenses, including those for the functioning of the governing and control bodies.

The Fund, albeit in its subjective unitary nature, is divided into two separate Sections for accounting and equity purposes: Section A, defined contribution with individual capitalisation, which operates according to criteria of correspondence between accumulation and benefits; Section B, defined benefit or collective capitalisation, to which the assets pertaining to the former defined benefit funds are allocated.

In terms of guarantees given, in accordance with Article 42 of the Articles of Association, any shortfall in the cover capital of Section B that may emerge from the periodic audits will be settled by the Parent Company in relation to the joint guarantee towards members and third parties assumed by the Parent Company itself.

With regard to the Pension Fund of "MPS Capital Services Banca per le Imprese S.p.A", the guarantee given by the latter was acquired by the Parent Company as a result of the merger by incorporation of the subsidiary during the year.

The assets that make up the reference assets are managed in a separate section set up for this purpose.

The technical financial statements prepared according to IAS 19 by the appointed actuary shows the capital adequacy of Section B.

The following table summarises the populations (Retirees, Assets and Deferred), asset values (Asset Fair Values), Defined Benefit Obligations and related surplus as of 31 December 2023 of each of the former defined benefit funds merged into Section B of the Monte dei Paschi di Siena Pension Fund.



	Retired	Active	Deferred	Asset Fair Value (Eur/mln)	Defined Benefit Obligation (Eur/mln)	Surplus (Eur/mln)
Supplementary pension provision for staff in the former tax collection division of Banca Monte dei Paschi di Siena S.p.A. -(Register no. 9185)	271	0	0	14.06	11.97	2.09
Treatment of INPS (Italian state pension Institute) performance for former Banca Operaia di Bologna staff (Bank Register no.9142)	61	0	0	4.68	3.94	0.74
Pension provision for employees of former Banca di Credito Popolare e Cooperativo di Reggio Emilia (Bank Register no.9178)	7	0	0	0.49	0.42	0.07
Pension provision for employees of former Banca Popolare Veneta (Bank Register no. 9066).	9	0	0	0.17	0.14	0.03
Pension fund for MPS Capital Services Banca per le Imprese S.p.A. (Register no.9134)	30	0	0	2.88	2	0.88
Pension provision for employees of former Banca Nazionale Agricoltura (Bank Register no. 9047)	173	0	3	6.51	6.4	0.11
Complementary pension provision for employees of former Banca Toscana (Bank Register no. 9110)	651	3	0	61.55	51.36	10.19
Pension Fund for personnel of former Banca Agricola Mantovana S.p.A. (Bank Register no. 1341)	25	0	1	0.58	0.52	0.06
Pension Fund for personnel of former Banca Antonveneta S.p.a. (Register no. 1033)	24	0	0	1.23	1.17	0.06

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 to employees and retirees of the Parent Company hired until 31 December 1990 who, following the agreement of 30 June 1989, opted to remain in the specific supplementary 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 Parent Company and others are appointed by the participants) supported by the General Manager.

The Parent Company 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 Parent Company only to the extent necessary to maintain tier 1 services, in accordance with the guarantee to the participants undertaken in compliance with Italian Law no. 218/90 and referred to in the agreement of 24 June 1991.

The supplementary benefits, which are determined by subtracting the benefits paid out by INPS from the annual amount of the supplementary benefits, are made up of two components. The first component increases the benefits to be paid by the Cassa up to 70% of the fixed items of the salary of an employee of the same level, and the second component increases the supplementary benefits by a further 9%.

The assets that comprise the reference capital consist primarily of investments in securities, managed almost entirely under a financial management agreement, and properties.

The beneficiary population is composed of 2,168 retirees, 97 active employees and 19 employees on deferred retirement.

The technical report prepared in accordance with IAS 19 criteria by the designated actuary shows the capital adequacy of the Supplementary Section which, against an asset fair value of EUR 245.99 mln, takes into consideration a defined benefit obligation (DBO) as at 31 December 2023 of EUR 57.41 mln.

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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 2023 shows the capital adequacy of the plan, with a DBO (Defined Benefit Obligation) of EUR 43.71 mln against an asset fair value of EUR 34.92 mln.

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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 supplementary benefits associated with the former Credito Lombardo S.p.A. Considering the contractual nature of the obligation, the economic costs are incurred directly by the Parent Company. The currently limited population eligible for benefits includes a total of 76 immediate pensions, of which 47 direct and 29 indirect. The actuarial calculations show a DBO (Defined Benefit Obligation) of EUR 1.49 mln at the valuation date of 31 December 2023.

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.

10.5.2 Changes in net defined liability (asset) and reimbursement rights during the financial year

The following tables show movements for the financial 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 2023			
	A (-)	B (+)	C (+)	D=A+B+C
	Plan assets	Present value of DBO	Effect of asset ceiling	Net defined benefit liability (asset)
Opening balance	(82,482)	94,615	14,367	26,500
Current service cost	X	-	X	-
Interest income/expense	-	70	-	70
Remeasurement of net defined benefit liability (asset):	-	22	-	22
Return on plan assets excluding interest	-	X	X	-
Actuarial gains (losses) arising from changes in demographic assumptions	X	(81)	X	(81)
Actuarial gains (losses) arising from experience adjustments	X	183	X	183
Actuarial gains (losses) arising from changes in financial assumptions	X	(80)	X	(80)
Changes in effect of limiting net defined benefit asset to asset ceiling	X	X	-	-
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	-	(470)	X	(470)
Effect of business combinations and disposals	-	-	-	-
Effect of any plan curtailments	-	-	X	-
Effect of any plan settlements	-	-	X	-
Other changes	82,482	(90,856)	(14,367)	(22,741)
Closing balance	-	3,381	-	3,381

The line “Other changes” included EUR 82.5 mln related to funded palnes and EUR 90.9 mln in column “Present value of DBO” related to internal funded and unfunded fund that have been transferred to Section B to section B of the MPS Pension Fund.

In the line “Closing balances” shown the value of the net liability for defined benefits attributable to the former Credito Lombardo S.p.A. and the former Provveditore, excluded from the aforementioned transaction.



Item/Amount	31 12 2022			
	A (-)	B (+)	C (+)	D=A+B+C
	Plan assets	Present value of DBO	Effect of asset ceiling	Net defined benefit liability (asset)
Opening balance	(91,064)	107,113	13,590	29,639
Current service cost	X	4	X	4
Interest income/expense	(305)	339	46	80
Remeasurement of net defined benefit liability (asset):	1,596	(2,698)	731	(371)
Return on plan assets excluding interest	1,596	X	X	1,596
Actuarial gains (losses) arising from changes in demographic assumptions	X	3,742	X	3,742
Actuarial gains (losses) arising from experience adjustments	X	11,356	X	11,356
Actuarial gains (losses) arising from changes in financial assumptions	X	(17,796)	X	(17,796)
Changes in effect of limiting net defined benefit asset to asset ceiling	X	X	731	731
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	7,291	(10,143)	X	(2,852)
Effect of business combinations and disposals	-	-	-	-
Effect of any plan curtailments	-	-	X	-
Effect of any plan settlements	-	-	X	-
Other changes	-	-	-	-
Closing balance	(82,482)	94,615	14,367	26,499



10.5.2b Changes in net defined liability (asset) and reimbursement rights during the financial year: External Funds

Item/Amount	31 12 2023			
	A (-)	B (+)	C (+)	D=A+B+C
	Plan assets	Present value of DBO	Effect of asset ceiling	Net defined benefit liability (asset)
Opening balance	(303,432)	109,964	193,562	93
Current service cost	X	-	X	-
Interest income/expense	(16,503)	8,195	8,308	-
Remeasurement of net defined benefit liability (asset):	21,577	(22,929)	(7,240)	(8,592)
Return on plan assets excluding interest	21,577	X	X	21,577
Actuarial gains (losses) arising from changes in demographic assumptions	X	(9,881)	X	(9,881)
Actuarial gains (losses) arising from experience adjustments	X	(12,536)	X	(12,536)
Actuarial gains (losses) arising from changes in financial assumptions	X	(512)	X	(512)
Change in effect of limiting net defined benefit asset to asset ceiling	X	X	(7,240)	(7,240)
Past service cost and gains (losses) arising from settlements	X	-	X	-
Changes in foreign exchange rates	(866)	709	157	-
Contributions to plan:	(97,657)	-	-	(97,657)
by employer	(97,657)	-	X	(97,657)
by employee	-	-	X	-
Payments from plan	16,505	(16,505)	X	-
Effect of business combinations and disposals	-	-	-	-
Effect of any plan curtailments	-	-	X	-
Effect of any plan settlements	-	-	X	-
Other changes	509	90,856	14,791	106,156
Closing balance	(379,867)	170,290	209,578	-

The merger of no. 7 internal funded and unfunded funds to section B of the MPS Pension Fund resulted in;

- The transfer of monetary resources of about EUR 97 mln represented in the column “Plan Assets” line “Contributions paid by employer”;
- The increase in the defined benefit liability of about EUR 90.0 mln represented in the column “Present value of DBO” in the line “Other changes”;
- A net positive impact on valuation reserves of about EUR 8 mln shown in the column “Liability/Net defined benefit asset” in the line “Revaluation of liability/net defined benefit asset”.



Item/Amount	31 12 2022			
	A (-)	B (+)	C (+)	D=A+B+C
	Plan assets	Present value of DBO	Effect of asset ceiling	Net defined benefit liability (asset)
Opening balance	(369,115)	143,035	226,173	93
Current service cost	X	-	X	-
Interest income/expense	(3,246)	1,603	1,643	-
Remeasurement of net defined benefit liability (asset):	59,949	(24,907)	(35,042)	-
Return on plan assets excluding interest	59,949	X	X	59,949
Actuarial gains (losses) arising from changes in demographic assumptions	X	836	X	836
Actuarial gains (losses) arising from experience adjustments	X	14,257	X	14,257
Actuarial gains (losses) arising from changes in financial assumptions	X	(40,000)	X	(40,000)
Change in effect of limiting net defined benefit asset to asset ceiling	X	X	(35,042)	(35,042)
Past service cost and gains (losses) arising from settlements	X	-	X	-
Changes in foreign exchange rates	3,711	(2,882)	(828)	-
Contributions to plan:	(2,255)	-	-	(2,255)
by employer	(2,255)	-	X	(2,255)
by employee	-	-	X	-
Payments from plan	6,885	(6,885)	X	-
Effect of business combinations and disposals	-	-	-	-
Effect of any plan curtailments	-	-	X	-
Effect of any plan settlements	-	-	X	-
Other changes	639	-	1,616	2,255
Closing balance	(303,432)	109,964	193,562	93



10.5.2c Changes in net defined benefit liabilities (assets) and reimbursement rights during the financial year – Total

Item/Amount	31 12 2023			
	A (-)	B (+)	C (+)	D=A+B+C
	Plan assets	Present value of DBO	Effect of asset ceiling	Net defined benefit liability (asset)
Internal funds	-	3,381	-	3,381
External funds	(379,867)	170,290	209,578	-
Total defined benefit funds	(379,867)	173,671	209,578	3,381

Item/Amount	31 12 2022			
	A (-)	B (+)	C (+)	D=A+B+C
	Plan assets	Present value of DBO	Effect of asset ceiling	Net defined benefit liability (asset)
Internal funds	(82,482)	94,615	14,367	26,499
External funds	(303,432)	109,964	193,562	93
Total defined benefit funds	(385,914)	204,579	207,929	26,592

10.5.3 Information on the fair value of plan assets

Item	31 12 2023			
	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	-	-	110,623	-
of which: used by the Group	-	-	-	-
Equity instruments	-	-	32,325	-
of which: issued by Group	-	-	-	-
Debt instruments	-	-	150,658	-
of which: issued by the Group	-	-	-	-
Real estate	-	-	-	41,454
of which: used by the Group	-	-	-	-
Derivatives	-	-	-	-
UCITS	-	-	44,807	-
Asset-backed securities	-	-	-	-
Structured debt	-	-	-	-
Total	-	-	338,413	41,454
<i>of which: own instruments/ assets used by the Group</i>	-	-	-	-

The table shows, for funded defined benefit plans, the total amount of plan assets. In particular, the assets refer to the following funds:

- 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,
- Monte dei Paschi di Siena Pension Fund.

All funds are in excess of existing obligations at the end of the financial year.



Item	31 12 2022			
	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	82,482	-	52,710	-
of which: used by the Group	82,482	-	2,128	-
Equity instruments	-	-	30,267	-
of which: issued by Group	-	-	-	-
Debt instruments	-	-	136,076	-
of which: issued by the Group	-	-	-	-
Real estate	-	-	-	46,294
of which: used by the Group	-	-	-	-
Derivatives	-	-	-	-
UCITS	-	-	38,085	-
Asset-backed securities	-	-	-	-
Structured debt	-	-	-	-
Total	82,482	-	257,138	46,294
<i>of which: own instruments/ assets used by the Group</i>	<i>82,482</i>	<i>-</i>	<i>2,128</i>	<i>-</i>

10.5.4 Key actuarial assumptions used

Key actuarial assumptions/percentages	31 12 2023		31 12 2022	
	Defined benefit funds		Defined benefit funds	
	Internal pension plans	External pension plans	Internal pension plans	External pension plans
Discount rates	3.52%	3.32%	3.55%	4.06%
Expected rates of salary increases	1.00%	1.76%	2.04%	2.38%

A discount rate of 3.52% was used for internal plans and of 3.32% for external ones (a range of rates between 2.96% and 3.26% 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 2023, using, as weights, the ratio between the amount paid/paid in advance for each maturity and the total amount to be paid/pay in advance for the entire duration of the population considered. The EUR Composite AA curve is obtained daily through the Bloomberg information provider and refers to a basket of securities issued by “investment grade” corporate issuers included in the “AA” rating class resident in the Eurozone and belonging to different sectors.

10.5.5 Information on amount, timing and uncertainty of cash flows

31 12 2023

Actuarial assumption	Change in DBO	Change (%) in DBO
Discount rate		
Increase of 0.25%	(370)	-0.21%
Decrease of 0.25%	490	0.28%
Expected rates of salary increases		
Increase of 0.25%	668	0.38%
Decrease of 0.25%	(1,110)	-0.64%

31 12 2022

Actuarial assumption	Change in DBO	Change (%) in DBO
Discount rate		
Increase of 0.25%	(4,601)	-2.22%
Decrease of 0.25%	4,049	1.95%
Expected rates of salary increases		
Increase of 0.25%	3,197	1.54%
Decrease of 0.25%	(3,746)	-1.80%

10.5.6 Plans covering multiple employers10.5.7 Defined benefit plans sharing risks among entities under common control

Plans having these characteristics are not present for the Group.



10.6 Provisions for risks and charges: other provisions

Items/Amounts	Total	Total
	31 12 2023	31 12 2022
2.1 Legal disputes	464,361	886,434
- Revocatory	17,044	15,515
- Other legal disputes	429,999	859,184
- Tax disputes	17,318	11,735
2.2 Personnel charges	66,048	53,419
- Job disputes	39,504	49,375
- Leaving incentives	406	1,773
- Other	26,138	2,271
2.3 Other	290,189	406,570
- Risks related to the sale of assets/ business units	5,878	14,295
- Charges due to corporate restructuring	1,440	97
- Payments to financial advisors	12,060	12,693
- Onerous contracts	132,563	144,718
- Charges for embezzlement	1,887	1,329
- Claims and Out-of-Court agreements	13,953	11,935
- Refunds related to sales of diamonds	2,156	4,402
- Claw back clause (IFRS 15)	16,692	23,340
- Refunds to customers	5,617	15,701
- Charges for legal services	32,320	35,606
- Other	65,623	142,454
Total	820,598	1,346,423

The reductions in provisions reported in lines 2.1 “Legal and tax disputes-Other legal disputes” and 2.3 “Other-Other” refer mainly to the significant improvement in the risk profile of judicial, civil and criminal proceedings, and out-of-court claims, respectively relating to financial information disseminated in the period 2008-2015, following the favourable rulings issued in the last quarter of 2023.

The amount of EUR 132.6 mln recognised in the line “Indemnities related to loan assignment transactions” represents the provision allocated to cover the risks associated with contractual guarantees issued as part of derisking transactions of non-performing loans.

The amount of EUR 26.1 mln recorded in the line “Personnel charges – Other” includes the allocation for personnel incentive system.



10.7 Contingent liabilities

Item/Type	31 12 2023	31 12 2022
Tax and legal disputes	1,906,988	1,926,578
Revocatory	5,397	6,417
Other legal disputes	1,877,116	1,892,068
Tax disputes	24,475	28,093
Personnel charges	16,140	15,589
Job disputes	16,140	15,589
Others	249,513	1,032,325
Total	2,172,641	2,974,492

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 “probable” 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 relief sought, where quantified; this value cannot be considered a measurement of the expected disbursement in accordance with IAS 37. In fact, the Group 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 consolidated financial statements.

Section 11 – Insurance liabilities – Item 110

The tables in this section have not been completed because for both the current year and the comparative year, the case does not exist.

Section 12 - Redeemable shares - Item 120

The tables in this section have not been completed as no data is present for the current financial year or for the previous financial year.



Section 13 – Group equity – Items 120, 130, 140, 150, 160, 170 and 180

13.1 “Share capital” and “Treasury shares”: breakdown

13.1.a “Share capital”: breakdown

(in units of Eur)

Items/Amounts	31 12 2023		31 12 2022	
	Implied par value share (a)	Par value of fully paid shares	Par value per share	Par value of fully paid shares
Ordinary shares	5.92	7,453,450,788	5.92	7,453,450,788
Total		7,453,450,788		7,453,450,788

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 “13.2 Share capital – Number of shares: annual changes”.

At the reporting date, the Parent Company’s share capital amounted to EUR 7,453,450,788, represented by 1,259,689,706 ordinary shares without a nominal value, all outstanding.

13.1.b “Treasury shares”: breakdown

The Group did not hold any treasury shares at the reporting date of these Financial Statements or for the financial year of comparison.

**13.2 Share capital - Parent company's number of shares: annual changes**

Item/Type	31 12 2023	31 12 2022
	Ordinary	Ordinary
A. Shares outstanding as at the beginning of the year	1,259,689,706	1,002,405,887
- fully paid	1,259,689,706	1,002,405,887
- not fully paid	-	-
A.1 Treasury shares (-)	-	-
A.2 Shares outstanding: opening balance	1,259,689,706	1,002,405,887
B. Increases	-	1,249,665,648
B.1 New issuances	-	1,249,665,648
- Against payment:	-	1,249,665,648
- Business combinations	-	-
- Bond converted	-	-
- warrants exercised	-	-
- other	-	1,249,665,648
- without payment:	-	-
- to employees	-	-
- to directors	-	-
- other	-	-
B.2 Sale of treasury shares	-	-
B.3 Other increases	-	-
C. Decreases	-	992,381,829
C.1 Cancellation	-	87
C.2 Purchase of treasury shares	-	-
C.3 Business transferred	-	-
C.4 Other decreases	-	992,381,742
D. Shares outstanding: closing balance	1,259,689,706	1,259,689,706
D.1 Treasury shares (+)	-	-
D.2 Shares outstanding as at the end of the year	1,259,689,706	1,259,689,706
- fully paid	1,259,689,706	1,259,689,706
- not fully paid	-	-

At the date of these financial statements, the share capital is fully paid in.



13.3 Share capital: other information

13.3a Equity instruments: breakdown and annual changes

As at 31 December 2023, as in the financial year used for comparison, the Group held no equity instruments.

13.4 Retained earnings: other information

See “Part F – Information on consolidated shareholders’ equity” of these Notes to the Financial Statements.

13.5 Equity instruments: breakdown and annual changes

See “Part F – Information on consolidated shareholders’ equity” of these Notes to the Financial Statements.

13.5 Other information

See “Part F – Information on consolidated shareholders’ equity” of these Notes to the Financial Statements.

Section 14 - Non-controlling interests - Item 190

14.1 Details of item 190 “Non-controlling interests”

Company name	31 12 2023	31 12 2022
Equity investments in consolidated companies with significant non-controlling interests	-	-
Other equity investments	651	936
Total	651	936

14.2 Equity instruments: breakdown and annual changes

No such instruments are present within the Group.



Other information

1 Commitments and financial guarantees given

Nominal Amount	31 12 2023				Total 31 12 2022	
	Stage 1	Stage 2	Stage 3	Purchased or originated credit impaired financial assets		
Irrevocable commitments to disburse funds	33,200,354	822,483	379,157	29	34,402,023	28,613,954
a) Central banks	-	-	-	-	-	-
b) Public entities	524,863	-	16	-	524,879	620,999
c) Banks	1,212,405	-	-	-	1,212,405	1,279,969
d) Other financial companies	9,448,715	948	538	-	9,450,201	3,515,650
e) Non-financial companies	20,251,377	686,615	367,025	29	21,305,046	20,967,694
f) Families	1,762,994	134,920	11,578	-	1,909,492	2,229,642
Financial guarantees given to	4,354,833	451,840	177,644	8,696	4,993,013	5,301,871
a) Central Banks	60	-	-	-	60	60
b) Public entities	40,926	2,514	-	-	43,440	48,007
c) Banks	484,484	-	-	-	484,484	800,828
d) Other financial companies	95,848	5,033	891	-	101,772	159,595
e) Non-financial companies	3,653,216	437,744	174,510	8,696	4,274,166	4,213,856
f) Families	80,299	6,549	2,243	-	89,091	79,525
Total	37,555,187	1,274,323	556,801	8,725	39,395,036	33,915,825

2 Other commitments and guarantees given

	Nominal value	
	31 12 2023	31 12 2022
Other guarantees given to	12,956	21,745
a) Central Banks	-	-
b) Public entities	-	-
c) Banks	6,778	13,600
d) Other financial companies	6,178	8,145
e) Non-financial companies	-	-
f) Families	-	-
Other commitments	-	386,904
<i>of which: non-performing exposures</i>	<i>-</i>	<i>-</i>
a) Central Banks	-	-
b) Public entities	-	-
c) Banks	-	-
d) Other financial companies	-	-
e) Non-financial companies	-	386,904
f) Families	-	-
Total	12,956	408,649

The table shows, at the line “Other guarantees given”, the maximum risk resulting from the failure to comply with the representations and warranties issued by the Group in the context of the transactions for derisking of non-performing loans and not yet matured at this reporting date.



The amount indicated in line “Other commitments” as at 31 December 2022, equal to EUR 386.9 mln, represented the commitments to disburse new loans as part of a synthetic securitisation transaction, which ended in December 2023.

3 Assets pledged as collateral for liabilities and commitments

Portfolios	31 12 2023	31 12 2022
1. Financial assets measured at fair value through profit or loss	1,924,188	45,481
2. Financial assets measured at fair value through other comprehensive income	1,169,062	937,702
3. Financial assets measured at amortised cost	36,990,309	36,966,302
4. Tangible assets	-	-
<i>of which: tangible assets that constitute inventories</i>	-	-

The table summarises the assets pledged by the Group as collateral for its liabilities, mainly represented by repurchase agreements. The amount in line “3. Financial assets measured at amortised cost” includes approx. EUR 20.2 bn related to mortgage loans transferred to the vehicles MPS Covered Bond S.r.l. and MPS Covered Bond 2 S.r.l. under the two programs for the issue of covered bonds and approximately EUR 11.6 bn relative to mortgage loans granted with guarantee at the Eurosystem (ABACO).

4 Investments in unit-linked and index-linked policies: breakdown

The Group does not hold any such investments since no company of the Group issues insurance policies.

5 Asset management and trading on behalf of third parties

	Amount 31 12 2023
1. Trading of financial instruments on behalf of third parties	
a) Purchases	2,356,366
1. Settled	2,356,366
2. Unsettled	-
b) Sales	1,140,662
1. Settled	1,140,662
2. Unsettled	-
2. Asset management accounts	-
a) individual	4,958,725
b) collective	-
3. Custody and administration of securities	-
a) third party securities on deposit associated with custodian bank transactions (excluding asset management)	-
1. Securities issued by companies included in consolidation	-
2. Other securities	-
b) Other third-party securities on deposit (excluding asset management)	56,703,736
1. Securities issued by companies included in consolidation	50,971
2. Other securities	56,652,765
c) third party securities deposited with third parties	43,745,592
d) own securities deposited with third parties	22,852,202
4. Other transactions	22,742,609



6 Financial assets subject to offsetting, enforceable offsetting framework 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 2023	Net amount 31 12 2022
				Financial instruments (d)	Deposits of cash collateral received (e)		
1. Derivatives	9,872,146	7,165,734	2,706,412	532,585	697,332	1,476,495	972,001
2. Repurchase agreements	7,260,573	-	7,260,573	7,202,061	-	58,512	3,227
3. Securities lending	-	-	-	-	-	-	-
4. Other	-	-	-	-	-	-	-
Total 31 12 2023	17,132,719	7,165,734	9,966,985	7,734,646	697,332	1,535,007	X
Total 31 12 2022	16,631,655	9,257,312	7,374,343	5,486,943	912,172	X	975,228

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 2023	Net amount 31 12 2022
				Financial instruments (d)	Deposits of cash collateral received (e)		
1. Derivatives	8,338,588	7,165,734	1,172,854	535,795	423,578	213,481	44,326
2. Repurchase agreements	6,703,319	-	6,703,319	6,656,847	-	46,472	119,058
3. Securities lending	-	-	-	-	-	-	-
4. Other	-	-	-	-	-	-	-
Total 31 12 2023	15,041,907	7,165,734	7,876,173	7,192,642	423,578	259,953	X
Total 31 12 2022	11,812,930	9,257,312	2,555,618	1,695,864	696,370	X	163,384

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 of the Parent Company.

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 Group, as borrower, has not carried out securities lending transactions guaranteed by other securities or securities lending transactions with customers.

9 Information on joint control activities

At the reporting date, as in the previous financial year, there were no jointly controlled arrangements qualifying as “joint operations” within the meaning of IFRS 11, according to which the parties with joint control have rights to the assets and obligations to the liabilities of the arrangement.



Part C – Information on the consolidated 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 2023	Total 31 12 2022
1. Financial asset measured at fair value through profit and loss	50,338	3,907	-	54,245	53,352
1.1 Financial asset held for trading	42,487	28	-	42,515	42,046
1.2 Financial assets designated at fair value	-	-	-	-	-
1.3 Financial assets mandatorily measured at fair value	7,851	3,879	-	11,730	11,306
2. Financial asset measured at fair value through other comprehensive income	46,217	-	X	46,217	44,838
3. Financial assets measured at amortised cost	244,164	3,343,279	X	3,587,443	1,818,902
3.1. Loans to banks	26,749	86,131	X	112,880	32,772
3.2 Loans to customers	217,415	3,257,148	X	3,474,563	1,786,130
4. Hedging derivatives	X	X	114,451	114,451	(54,799)
5. Other assets	X	X	561,209	561,209	104,361
6. Financial liabilities	X	X	X	604	183,067
Total	340,719	3,347,186	675,660	4,364,169	2,149,721
<i>of which interest income on credit impaired assets</i>	-	84,042	-	84,042	62,424
<i>of which interest income on financial leasing</i>	X	199,744	X	199,744	99,204

Line 4 “Hedging derivatives”, in the “Other transactions” column, includes the spread related to hedging derivatives rectifying the interest income recognised on the hedged financial instruments under assets. The reversal from the comparative period is due to the rise in interest rates during 2023, which resulted in positive differentials on derivatives - interest rate swaps (IRS) and interest rate options - which the Group uses mainly to hedge the interest rate risk on fixed rate commercial assets.

Line 5 “Other assets”, column “Other transactions”, shows interest accrued on demand deposits and current accounts with central banks classified under “Cash and cash equivalents”, for EUR 456.8 mln (EUR 81.4 mln as at 31 December 2022), the significant increase compared to last year is due to the monetary policy decisions of the Governing Council of the ECB which, during 2023, raised the deposit rate at various times. The same item also includes accrued interest income on tax credits in the amount of EUR 56.2 mln (EUR 20.9 mln as at 31 December 2022).

The decrease reported in line 6 “Financial liabilities” is mainly attributable to the combined effect of: (i) an increase in interest rates and (ii) the discontinuation of the advantageous remuneration mechanisms previously applied to the TLTRO III auctions, which had resulted in interest on these transactions of EUR 130.5 mln as at 31 December 2022. For the accounting treatment relating to the recognition of interest for the period, reference is made to what is illustrated in the paragraph “Other relevant accounting treatments” contained in Part A of the Notes to the consolidated financial statements.

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 financial year for positions that are classified as “non-performing” as at the reporting date totalled EUR 84.0 mln (EUR 62.4 mln as at 31 December 2022).

Interest on arrears is posted to net interest income only for the portion actually collected.

For a trend analysis of the concerned items, reference should be made to the Consolidated 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 2023 amounted to EUR 42.7 mln as compared to EUR 34.8 mln in 2022.

1.3 Interest expense and similar charges: breakdown

Items	Deposits	Securities	Other transactions	Total 31 12 2023	Total 31 12 2022
1. Financial liabilities measured at amortised cost	(1,477,091)	(382,747)	-	(1,859,838)	(484,175)
1.1 Due to central banks	(540,576)	X	X	(540,576)	(13)
1.2 Due to banks	(58,041)	X	X	(58,041)	(19,151)
1.3 Due to customers	(878,474)	X	X	(878,474)	(156,054)
1.4 Debt securities issued	X	(382,747)	X	(382,747)	(308,957)
2. Financial liabilities held for trading	-	-	(2,178)	(2,178)	(1,666)
3. Financial liabilities designated at fair value	-	(4,507)	-	(4,507)	(5,375)
4. Other liabilities	X	X	(141)	(141)	(1)
5. Hedging derivatives	X	X	(205,004)	(205,004)	(32,572)
6. Financial assets	X	X	X	(573)	(90,696)
Total	(1,477,091)	(387,254)	(207,323)	(2,072,241)	(614,485)
<i>of which interest expense on leasing liabilities</i>	<i>(5,222)</i>	<i>X</i>	<i>X</i>	<i>(5,222)</i>	<i>(5,225)</i>

Line 1.1 “Payables to central banks” includes EUR 409.0 mln referring to interest on longer-term TLTRO III loan transactions plus a further EUR 131.6 mln of interest relating to short-term MRO/LTRO auctions in which the Parent Company participated in 2023.

Lines “1.2 Deposits from banks” and “1.3 Deposits from customers”, in the “Deposits” column, include interest on payables under repo 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 financial year on bonds and certificates of deposit valued at amortised cost; the increase over last year is related to the two new issues in February and August 2023.

Line 5 “Hedging derivatives”, column “Other transactions”, includes the differentials relating to hedging derivatives to correct the interest expense recognised on the hedged fixed-rate commercial and bond deposits; the increase compared to the comparative period is attributable to the rise in interest rates recorded during 2023, which resulted in net negative differentials on the derivatives that the Bank has in place to hedge the aforementioned fixed-rate liabilities.

Line “6. Financial assets” highlights the negative interest accrued on financial assets. Last year, the amount of EUR 64.0 mln included EUR 55.2 mln referring to the negative remuneration of the excess reserves - with respect to the mandatory reserve - deposited with the Eurosystem.

For a trend analysis of the concerned items, reference should be made to the Consolidated 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 liabilities denominated in foreign currency for 2023 amounted to EUR 9.1 mln as compared to EUR 3.1 mln in 2022.

1.5 Spreads on hedging transactions

Items	Total	Total
	31 12 2023	31 12 2022
A. Positive spreads on hedging transactions	133,231	209
B. Negative spreads on hedging transactions	(223,784)	(87,580)
C. Balance (A+B)	(90,553)	(87,371)



Section 2 - Fee and commission income/expense - Items 40 and 50

2.1 Fee and commission income: breakdown

Type of service/Amount	Totale 31 12 2023	Totale 31 12 2022
a) Financial instruments	122,365	115,399
1. Placement of securities	38,618	26,652
1.1 Underwriting on the basis of an irrevocable commitment	24,105	20,099
1.2 without irrevocable commitment	14,513	6,553
2. Reception and transmission of orders	25,339	23,942
2.1 Reception and transmission of orders of financial instruments	23,416	21,161
2.2 Execution of orders on behalf of customers	1,923	2,781
3. Other commission income related to activities linked to financial instruments	58,408	64,805
<i>of which: proprietary trading</i>	15,109	23,414
<i>of which: individual portfolio management</i>	43,299	41,390
b) Corporate Finance	7,798	26,254
1. M&A fees	-	7,292
2. Treasury services	7,752	6,846
3. Other fees and commission income related to Corporate finance activities	46	12,116
c) Investment advisory activities	5,504	5,834
d) Clearing and settlement	285	167
e) Collective portfolio management	15	14
f) Custody and administration of securities	6,013	5,444
1. Custodian bank	-	-
2. Other fees and commission income related to Custody and administration activities	6,013	5,444
g) Central administrative services for collective portfolio management	-	-
h) Trustee business	2,115	2,150
i) Payment services	506,127	516,257
1. Current account	219,275	236,500
2. Credit cards	67,998	68,462
3. Debit cards and other card payments	79,531	73,495
4. Transfers and other payment orders	67,343	64,090
5. Other fees and commission income related to payment services	71,980	73,710
j) Distribution of third-party services	541,433	587,920
1. Collective portfolio management	315,274	336,484
2. Insurance products	192,028	208,745
3. Other products	34,131	42,691
<i>of which: individual portfolio management</i>	-	-
k) Structured finance	-	-
l) Securitisation servicing activities	66	217
m) Loans commitments given	173,361	171,685
n) Financial guarantees	49,657	48,812
<i>of which: credit derivatives</i>	-	-
o) Lending transactions	77,502	62,037
<i>of which: factoring services</i>	15,070	14,700
p) Currency trading	3,572	4,696
q) Commodities	-	-
r) Other fees and commission income	60,393	38,105
<i>of which: management of sharia multilateral trading facilities</i>	-	-
<i>of which: management of organized trading systems</i>	-	-
Total	1,556,206	1,584,991

Line r) “Other fee and commission income” includes EUR 14.9 mln referring to leasing transactions, EUR 10.1 mln attributable to the opening of contracts for the purchase of tax credits, directly related to the recovery of expenses that the Parent Company claims for the finalisation of the transaction and EUR 2.9 mln in agency fees for the role played by the Parent Company as lead/agent of pooled loans.

For an analysis of the fee and commission income and for the disclosure on disaggregation of revenues, as required by IFRS 15.114-115, the table below shows the trend in fees and commissions for each of the operating segments identified, for the services rendered and according to geographic area served.



SEGMENT REPORTING Primary segment	Operating Segments					Total Montepaschi Group	
	Retail banking	Wealth Management	Corporate banking	Large Corp. & Investment Banking	Corporate Center		
	31/12/23	31/12/23	31/12/23	31/12/23	31/12/23	31/12/23	31/12/22
Assets under management fee	492,168	99,420	18,671	240		610,499	633,343
Product placement	128,179	11,223	2,660	0		142,062	169,491
Continuing fees	292,033	81,066	8,728	150		381,978	387,162
Placement of securities	37,175	6,948	1,787	89		45,999	35,546
Sales of Protection	34,782	182	5,496	0		40,460	41,144
Fee and commissions from traditional activities	331,360	6,188	463,822	51,335		852,705	892,579
Credit fees	50,196	1,725	257,432	38,515		347,868	372,559
Fees from foreign service	6,048	297	48,223	10,269		64,838	66,565
Other services	275,115	4,167	158,167	2,550		440,000	453,455
Other fee and commission income	10,590	5,041	23,334	35,397	18,638	92,996	59,069
Net fees and commission income	834,118	110,650	505,828	86,972	18,638	1,556,206	1,584,991

39.2% of the Group's Fee and commission income by Operating segments derives from products (management, placement and custody), 22.4% from loans (granting and utilisation) and 38.4% from services (account maintenance, payments, etc.). More specifically, 59.0% of Retail banking fee and commission income is attributable to product fees and commissions, 6% to income from loans and 35.0% to fees and commissions on services. Wealth Management fee and commission income essentially refers to the product component (89.9%); Corporate banking fee and commission income is mainly concentrated on the credit component (50.9%) and services (45.4%); the fee and commission income of Large Corporate & Investment banking refers to the credit component (44.3%) and services (55.4%).

Fee and commission income is broken down based on the following geographical segmentation:

Commission income breakdown by geography	North	Centre	South	Foreign Countries	Total Montepaschi Group	
	31 12 2023	31 12 2023	31 12 2023	31 12 2023	31 12 2023	31 12 2022
Assets under management fee	284.300	222.191	102.958	1.051	610.499	633.342
Product placement	61.545	54.544	25.973	-	142.062	169.491
Continuing fees	183.084	139.044	58.931	919	381.978	387.162
Placement of securities	22.046	15.651	8.170	132	45.999	35.546
Sales of Protection	17.624	12.952	9.884	-	40.460	41.144
Fee and commissions from traditional activities	307.193	362.666	177.191	5.655	852.705	892.580
Credit fees	128.568	156.662	58.744	3.895	347.868	372.559
Fees from foreign service	27.752	29.746	7.335	5	64.838	66.565
Other services	150.873	176.258	111.113	1.756	440.000	453.456
Other fee and commission income	12.106	68.208	9.190	3.498	93.002	59.069
Net fees and commission income	603.599	653.065	289.338	10.204	1.556.206	1.584.991

The disclosure for performance obligations is provided for the main services offered by Group companies, in accordance with IFRS 15.113, 119:

- collection and payment services, including the offer to customers of credit and debit cards issued by the Bank. For these services, the customer pays an annual fee in advance for the administrative management of the card, recognised over time, as well as fees calculated on the individual transactions linked to the card's configuration, which, if not included in the annual fee, are recognised at a point in time as 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. Within this context, the fees received for various products offered to customers 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 refers to a performance obligation fulfilled over time, while the second refers to services performed at a specific time and compensated separately from the quarterly fee, and which are structured as a performance obligation fulfilled at a point in time;
- distribution of third-party products and services based on partnership agreements with external counterparties, for which placement commissions are collected, recorded at a point in time as they are compensation for the intermediation performance obligation provided by the Bank, and continuing commissions connected to the administrative management of the customer in the network, recorded over time, as they represent compensation for the performance obligation rendered over the course of the investment's duration. Some distribution agreements also include variable commissions, recognised by external counterparties upon achieving certain placement volumes or other annual metrics envisaged in the distribution agreements. Based on the various contractual provisions and in accordance with provisions contained in IFRS 15, if conditions apply in the interim periods, analyses are carried out in order to determine if there are conditions that allow the advance accounting of the revenue or a portion thereof. The advance recognition is carried out exclusively if it is highly likely that, once the uncertainty has been resolved, there is no downward adjustment of the recorded amount. Lastly, some contracts contain claw-back clauses, which entail, in the event certain conditions apply, the full or partial reimbursement of placement commissions previously recognised upon execution of the initial performance obligation (i.e. point in time): in this case, the claw-back clause represents a variable component of the transaction price, since the amount recognised upon product placement is not definitive, but will depend on future events that are beyond the control of the Bank. In such situations the amount of the commissions that could potentially be subject to restitution is estimated, charging the amount that is expected to be returned to the third party to a specific risk provision; the income that is posted to the income statement is equal to the amount recognised against the performance obligation for the placement activity carried out during the financial year, net of the amount set aside in the provision;
- individual portfolio management, in the context of assets linked to financial instruments, which mainly include management fees, calculated with a percentage proportional to the assets under management, recognised over time as a remuneration of a service rendered over time.
- complex financial services including consultancy, advisory/asseveration/underwriting and order collection. The contracts may provide for various types of fees and commissions associated with the various services offered. Some of these are linked to activities performed throughout the contract's duration (over time) and paid by the customer regardless of the outcome of the activities, while others are services for which the customer pays only if certain identified events occur, therefore, they are connected to services provided at a specific point in time. The first type of fee, associated with a performance obligation over time, is recognised throughout the contract's duration, while the second is recorded when the event occurs, as it represents compensation for a performance obligation carried out at a point in time;
- fiduciary services to customers via subsidiary MP Fiduciaria, including the confidential administration of money, financial instruments and unlisted equity investments, fiduciary mandates for guarantee purposes, family portfolio settlements and the intergenerational transfer of wealth. Since they are linked to performance obligations that are protracted and repeated over time, the fees for fiduciary services are measured over time for continuing commissions. Instead, commissions for opening the relationship are recognised at a point in time...

With regard to the breakdown in revenues (IFRS 15.116-118), it should be noted that EUR 1.6 mln was recorded as the adjustment price component accrued during the year on commissions collected for placement of third-party services carried out by the Parent Company in the previous year.

This line includes the reversal of revenues for EUR 4.1 mln made against a provision for risks in accordance with IFRS 15, in consideration of the claw-back clauses set forth in a third-party product placement contract.



2.1.a Fee and commission income: distribution channels of products and services

Channel/Sectors	31 12 2023	31 12 2022
a) Group branches	545,775	555,391
1. portfolio management	38,845	37,359
2. placement of securities	37,750	186
3. third party services and products	469,180	517,846
b) "Door-to-door" sales	62,866	65,308
1. portfolio management	4,452	4,031
2. placement of securities	605	2,448
3. third party services and products	57,809	58,829
c) Other distribution channels	14,709	35,264
1. portfolio management	2	-
2. placement of securities	263	24,019
3. third party services and products	14,444	11,245

2.2 Fee and commission expense: breakdown

Type of service/Amount	Total 31 12 2023	Total 31 12 2022
a) Financial instruments	(4,885)	(11,283)
<i>of which: trading in financial instruments</i>	(3,486)	(10,827)
<i>of which: placement of financial instruments</i>	-	-
<i>of which: individual portfolio management</i>	(1,400)	(3)
- own portfolio	-	-
- third-party portfolio	(1,400)	(3)
b) Clearing and settlement	(2,172)	(3,689)
c) Collective portfolio management	-	-
- own portfolio	-	-
- third-party portfolio	-	-
d) Custody and administration	(4,011)	(4,281)
e) Collection and payment services	(80,487)	(78,426)
<i>of which: credit card, debit card and other payments cards</i>	(61,518)	(49,532)
f) Securitisation servicing activities	-	-
g) Loans commitment	-	-
h) Financial guarantees received	(46,818)	(47,392)
<i>of which: credit derivatives</i>	-	-
i) Door-to-door sales of financial instruments, products and services	(53,842)	(50,649)
j) Currency trading	-	-
k) Other fee and commission expenses	(38,367)	(31,293)
Total	(230,582)	(227,013)

Line a) "Financial instruments of which: individual portfolio management - delegated to third parties" includes commissions payable on the collection of securities orders.

Line b) "Clearing and settlement" includes commissions payable for the derivative clearing service.

Line e) "Collection and payment services" includes the commissions from the outsourcing of administrative servicing related to card management.



Line h) “Financial guarantees received” includes commissions of EUR 37.8 mln (37.0 mln as at 31 December 2022) related to the purchase of protection against credit risk as part of the outstanding synthetic securitisations.

Line “i) Door-to-door sales of financial instruments, products and services” includes fees and commissions paid to financial advisors of the Group.

Line k) “Other fee and commission expense” includes EUR 7.4 mln relating to leasing transactions, of which EUR 3.4 mln for commissions and contributions for the brokerage of agents.

For a trend analysis of the concerned items, reference should be made to the Consolidated Report on Operations.

Section 3 - Dividends and similar income - Item 70

3.1 Dividends and similar income: breakdown

Item/Income	31 12 2023			31 12 2022		
	Dividends	Similar Income	Total	Dividends	Similar Income	Total
A. Financial assets held for trading	4,851	1,103	5,954	4,262	753	5,015
B. Other financial assets mandatorily measured at fair value	-	8,092	8,092	-	11,733	11,733
C. Financial assets measured at fair value through other comprehensive income	12,501	-	12,501	9,599	-	9,599
D. Investments	-	-	-	-	-	-
Total	17,352	9,195	26,547	13,861	12,486	26,347

The table shows the amount of dividends received on shares traded within the trading book and non-controlling interest classified in the portfolio of “Financial assets measured at fair value through other comprehensive income”. Conversely, dividends relating to the Group’s subsidiaries and associates, consolidated line-by-line or under the equity method, are excluded.

Line “B Financial assets mandatorily measured at fair value” refer entirely to income distributed by private equity funds.

Line “C. Financial assets measured at fair value through other comprehensive income” includes the dividend of EUR 8.5 mln (EUR 8.5 mln as at 31 December 2022) collected from the equity investment in the Bank of Italy.



Section 4 - Net profit (loss) from trading - Item 80

4.1 Net profit (loss) from trading: breakdown

Transactions / P&L items	Capital gains	Trading Profits	Capital losses	Trading Losses	Net Profit (Loss)	
					31 12 2023	31 12 2022
1. Financial assets held for trading	65,104	200,925	(17,802)	(77,183)	171,044	(471,869)
1.1 Debt securities	55,995	190,046	(11,835)	(73,590)	160,616	(452,594)
1.2 Equity instruments	4,497	9,116	(5,238)	(2,090)	6,285	(14,639)
1.3 Units of UCITS	4,612	1,388	(729)	(1,251)	4,020	(4,727)
1.4 Loans	-	-	-	-	-	-
1.5 Other	-	375	-	(252)	123	91
2. Financial liabilities held for trading	1,339	15,474	(30,915)	(51,564)	(65,666)	345,826
2.1 Debt securities	1,247	15,236	(30,823)	(51,151)	(65,491)	342,507
2.2 Deposits	-	-	-	-	-	-
2.3 Other	92	238	(92)	(413)	(175)	3,319
3. Other financial assets and liabilities: exchange differences	X	X	X	X	(7,189)	21,120
4. Derivatives	4,184,210	7,226,864	(4,080,794)	(7,420,755)	(43,214)	81,174
4.1 Financial derivatives:	4,159,688	7,198,421	(4,080,794)	(7,414,512)	(89,936)	120,080
- on debt securities and interest rates	4,128,134	6,390,610	(4,044,585)	(6,635,271)	(161,112)	151,649
- on equity instruments and stock indices	19,750	411,830	(24,378)	(374,884)	32,318	(37,091)
- on currency and gold	X	X	X	X	47,261	(16,858)
- other	11,804	395,981	(11,831)	(404,357)	(8,403)	22,380
4.2 Credit derivatives	24,522	28,443	-	(6,243)	46,722	(38,906)
<i>of which natural hedging connected with the fair value option</i>	X	X	X	X	-	-
Total	4,250,653	7,443,263	(4,129,511)	(7,549,502)	54,975	(23,749)

It should be noted that, based on the provisions set in the Bank of Italy Circular no. 262, the specification “of which: natural hedges related to the fair value option” refers to a particular type of hedge under IFRS 9. In this regard, it should be noted that there are no amounts to be valued, as the Group opted to continue to use the hedge accounting regime under IAS 39.

During the financial year, the Credit Value Adjustment (CVA) decreased, generating a positive impact of EUR 2.8 mln on OTC derivatives; likewise, the *Debit Value Adjustment* (DVA) on OTC derivatives recorded a decrease with a consequent negative impact of EUR 20.5 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 2023	Total 31 12 2022
A. Gains on:		
A.1 Fair value hedging instruments	223,001	2,369,343
A.2 Hedged financial assets (fair value)	519,165	16,380
A.3 Hedged financial liabilities (fair value)	-	434,038
A.4 Cash-flow hedging derivatives	-	-
A.5 Assets and liabilities denominated in foreign currency	-	-
Total gains on hedging activities (A)	742,166	2,819,761
B. Losses on:		
B.1 Fair value hedging instruments	526,657	456,101
B.2 Hedged financial assets (fair value)	11,145	2,357,483
B.3 Hedged financial liabilities (fair value)	208,807	-
B.4 Cash-flow hedging derivatives	-	-
B.5 Assets and liabilities denominated in foreign currency	-	-
Total losses on hedging activities (B)	746,609	2,813,584
C. Net profit (loss) from hedging activities (A - B)	(4,443)	6,177
<i>of which: hedging result on Net position</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 these Notes to the financial statements.

More information on hedged assets and liabilities can be found in the tables in Part B of the notes to the financial statements 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 2023			Total 31 12 2022		
	Gains	Losses	Net Profit (Loss)	Gains	Losses	Net Profit (Loss)
Financial assets						
1. Financial assets measured at amortised cost	15,602	(6,487)	9,115	77,087	(26,253)	50,834
1.1 Loans to banks	-	-	-	5	-	5
1.2 Loans to customers	15,602	(6,487)	9,115	77,082	(26,253)	50,829
2. Financial assets measured at fair value through other comprehensive income	1,034	-	1,034	1,238	(2)	1,236
2.1 Debt securities issued	1,034	-	1,034	1,238	(2)	1,236
2.2 Loans	-	-	-	-	-	-
Total assets (A)	16,636	(6,487)	10,149	78,325	(26,255)	52,070
Financial liabilities measured at amortised cost						
1. Due to banks	-	-	-	-	-	-
2. Due to customers	-	-	-	-	-	-
3. Debt securities issued	2	(179)	(177)	12	0	12
Total liabilities (B)	2	(179)	(177)	12	-	12

The column “Net profit (loss)” of the item “Financial assets measured at amortised cost” in line 1.2 “Loans to customers” mainly includes the net profits earned from the disposal of some Italian government securities.



Section 7 - Net profit (loss) from other financial assets and liabilities measured at fair value through profit or loss - Item 110

7.1 Net changes in other financial assets and liabilities measured at fair value through profit or loss: breakdown of financial assets and liabilities measured at fair value

Transaction/P&L items	Capital Gains	Realized Profits	Capital losses	Realized losses	Net Profit (loss)	
					31 12 2023	31 12 2022
1. Financial assets	-	-	-	-	-	-
2. Financial liabilities	20	-	(3,141)	-	(3,121)	31,650
2.1 Debt securities issued	20	-	(3,141)	-	(3,121)	31,650
2.2. Due to banks	-	-	-	-	-	-
2.3. Due to customers	-	-	-	-	-	-
3. Financial assets and liabilities in foreign currency: exchange differences	X	X	X	X	-	-
Total	20	-	(3,141)	-	(3,121)	31,650

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 or loss: breakdown of other financial assets mandatorily measured at fair value

Transaction/P&L items	Capital gains	Realized profits	Capital losses	Realized losses	Net Profit (loss)	
					31 12 2023	31 12 2022
1. Financial assets						
1.1 Debt securities issued	2,076	8,796	(4,171)	(2,009)	4,692	(10,795)
1.2 Equity instruments	75	2,271	(1)	-	2,345	(792)
1.3 Units of UCITS	8,741	6	(4,676)	-	4,071	20,635
1.4 Loans	1,785	-	(2,302)	-	(517)	6,654
2. Other financial assets: exchange differences	X	X	X	X	(1,620)	2,728
Totale	12,677	11,073	(11,150)	(2,009)	8,971	18,430

The net result, in line “1.1 Financial assets - Debt securities”, includes the gain on disposal of EUR 7.1 mln relating to the redemption of the notes referring to the “Norma” securitisation and the capital loss of the junior notes of the “Siena NPL” securitisation for EUR 3.4 mln.

The net result, in line “1.3 financial assets - UCITS units”, mainly refers to NPE credit funds.

Line 1.4 “Financial Assets - Loans” includes in the column “Capital Gains” write-backs relating to loans for which there has been an improvement in the risk profile; the column “Capital Losses” includes write-downs of loans classified as “unlikely to pay”.



Section 8 - Net impairment (losses)/reversals for credit risk - Item 130

8.1 Net impairment (losses)/reversals for credit risk on financial assets measured at amortised cost: breakdown

Transaction/P&L items	Net impairment (losses)						Reversals				Total 31 12 2023	Total 31 12 2022
	Stage 1	Stage 2	Stage 3		Purchased or originated credit impaired financial assets		Stage 1	Stage 2	Stage 3	Purchased or originated credit impaired financial assets		
			Write-off	Others	Write-off	Others						
A. Loans to banks	(211)	(152)	-	(593)	-	-	701	447	-	-	192	1,404
- Loans	(176)	(152)	-	(593)	-	-	699	447	-	-	225	1,317
- Debt securities	(35)	-	-	-	-	-	2	-	-	-	(33)	87
B. Loans to customers	(58,047)	(224,211)	(29,397)	(628,334)	-	(81)	113,703	121,793	272,672	545	(431,357)	(431,690)
- Loans	(56,472)	(220,279)	(29,397)	(628,334)	-	(81)	112,061	121,793	272,672	545	(427,492)	(429,363)
- Debt securities	(1,575)	(3,932)	-	-	-	-	1,642	-	-	-	(3,865)	(2,327)
C. Total	(58,258)	(224,363)	(29,397)	(628,927)	-	(81)	114,404	122,240	272,672	545	(431,165)	(430,286)

8.2 Net impairment (losses)/reversals for credit risk on financial assets measured at fair value through other comprehensive income: breakdown

Transactions/ P&L items	Net impairment (losses)						Reversals				Total 31 12 2023	Total 31 12 2023
	Stage 1	Stage 2	Stage 3		Purchased or originated credit impaired financial assets		Stage 1	Stage 2	Stage 3	Purchased or originated credit impaired financial assets		
			Write- off	Others	Write- off	Others						
A. Debt securities issued	(59)	(42)	-	(129)	-	-	468	216	-	-	454	(202)
B. Loans	-	-	-	-	-	-	-	-	-	-	-	-
- to banks	-	-	-	-	-	-	-	-	-	-	-	-
- to customers	-	-	-	-	-	-	-	-	-	-	-	-
Total	(59)	(42)	-	(129)	-	-	468	216	-	-	454	(202)



Section 9 - Gains/losses from contractual changes without cancellation - Item 140

9.1 Modification gains/(losses): breakdown

This item, negative for EUR 6.8 mln as at 31 December 2023 (positive for EUR 4.3 mln as at 31 December 2022) includes the impacts related to contractual changes on medium/long term loans to customers which, without any substantial change, according to the provisions of IFRS 9, as well as the Group's accounting regulations, do not entail accounting derecognition of the assets but rather the recognition to profit and loss of the changes made to the contractual cash flows.

Section 10 - Result of insurance services - Item 160

Section 11 - Balance of revenues and costs of a financial nature relating to insurance management - Item 170

The tables of the two sections are not included as the Group does not carry out insurance activities, therefore the cases in question are not pertinent both for the year 2023 and for the year of comparison.

Section 12 - Administrative expenses - Item 190

12.1 Personnel expenses: breakdown

Type of Expense / Area	Total 31 12 2023	Total 31 12 2022
1. Employees	(1,198,085)	(2,333,651)
a) wages and salaries	(845,675)	(996,954)
b) social-welfare charges	(231,833)	(277,187)
c) severance pay	(54,639)	(63,633)
d) social security expenses	-	-
e) provision for staff severance pay	(2,727)	(2,708)
f) pension fund and similar obligations:	(70)	(687)
- defined contribution	-	(603)
- defined benefit	(70)	(84)
g) contributions to external pension funds:	(20,615)	(23,893)
- defined contribution	(20,615)	(23,893)
- defined benefit	-	-
h) costs related to share-based payments	-	11
i) other employee benefits	(42,526)	(968,600)
2. Other staff	8,663	14,760
3. Directors and Statutory Auditors	(2,606)	(2,917)
4. Retired personnel	(19)	(24)
Total	(1,192,047)	(2,321,832)

The overall reduction in personnel expenses is mainly due to the 2022 manoeuvre of early retirement / solidarity fund only partially offset by the higher charges resulting from the renewal of the National Collective Labour Agreement for banks and the variable incentive component of remuneration, not envisaged in 2022.

Line “f) pension funds 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 “i) other employee benefits”, amounting to EUR 42.5 mln, recorded a significant decrease compared to the previous year. The figure as at 31 December 2022 included EUR 928.3 mln referring almost entirely to the activation of the staff solidarity fund.

Line 2 “Other Staff” includes approximately EUR 9.5 mln as at 31 December 2023 (EUR 15.7 mln as at 31 December 2022) relating to Fruendo and due to the reinstatement and subsequent secondment of some employees in 2020.



12.2 Average number of employees by category

Category / Average Number	31 12 2023	31 12 2022
Employees:	15,797	19,782
a) executives	162	218
b) middle managers	5,864	7,855
c) remaining staff	9,771	11,709
Other personnel	8	9
Total	15,805	19,791

12.3 Defined benefit company pension funds: costs and revenues

Items/Amounts	31 12 2023			31 12 2022		
	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	(70)	-	(2,698)	(80)	-	(2,671)
Current service cost and gains (losses) arising from settlements [°]	-	-	(28)	(4)	-	(37)
Past service cost	-	-	-	-	-	-
Gains (losses) arising from settlements ^{°°}	-	-	-	-	-	-
Other operating costs	-	-	(1)	-	-	-
Total	(70)	-	(2,727)	(84)	-	(2,708)

[°] Pursuant to par. 100 of IAS 19, it should be noted that the pension cost for past service 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.

12.4 Other employee benefits

No information to report pursuant to sections 53, 158 and 171 of IAS 19.



12.5 Other administrative expenses: breakdown

Items/Amounts	31 12 2023	31 12 2022
Stamp duties	(164,746)	(158,737)
Indirect taxes and duties	(25,969)	(31,343)
Municipal real estate property tax	(20,278)	(20,747)
Property rentals	(3,774)	(2,531)
Cleaning service contracts	(16,996)	(27,167)
Insurance	(17,415)	(19,857)
Sundry lease payments and Rentals	(114,511)	(118,805)
Remuneration of external professionals	(61,687)	(71,910)
Third-party data processing	(32,127)	(32,914)
Lease of equipment	(18,652)	(17,732)
Utilities	(45,222)	(35,456)
Maintenance of movable and immovable properties (used in the business)	(33,692)	(37,796)
Postage	(16,123)	(16,454)
Advertising, sponsorships and promotions	(6,316)	(3,139)
Membership dues	(3,364)	(3,424)
Reimbursement of employee car and travel expenses	(2,503)	(1,730)
Security services	(6,728)	(5,457)
Software	(56,681)	(57,321)
Expenses for personnel training	(2,188)	(3,358)
Corporate entertainment expenses	(809)	(636)
Expenses for non-rented investment real estate	-	(170)
Printing and stationery	(5,010)	(3,890)
Telephone, telefax and telegraph	(7,568)	(8,059)
Transportation	(18,798)	(20,700)
Sundry occupancy expenses and refunds for release of immovable property used in the business	(5,594)	(6,657)
Contributions Resolution Funds (SRF) and Deposits Guarantee Schemes (DGS)	(133,726)	(178,795)
DTA fee	(62,927)	(62,916)
Others	(13,758)	(24,121)
Total	(897,162)	(971,822)

The line “Sundry lease payments and rentals” includes EUR 76.9 mln (EUR 80.2 mln as at 31 December 2022) referring to costs for outsourced services regarding back office accounting and administrative activities related to the management and provision of specific services by the Group. These services entail decreasing considerations over the duration of the contract, against a constant volume of services received by the Group. In accordance with the accounting policies (see Part A, Other information - Costs for constant services and decreasing payments), the recognition of the afore-mentioned costs in the income statements follows a linear trend over the contract duration with the consequent necessity for the Group to recognise a prepayment. The cumulative figure as at 31 December 2022 amounted to EUR 242.0 mln (EUR 250.7 mln as at 31 December 2022) and is shown under item “Other assets”, line “Accrued income and prepaid expenses not attributable to its own separate item” of Part B of these Notes to the financial statements. The line also includes costs relating to short-term and low-value lease agreements for EUR 3.5 mln (EUR 3.3 mln as at 31 December 2022).

Line “Contributions to resolution funds (SRF and NRD) and Deposit guarantee Systems (DGS)” amounting to EUR 133.7 mln (EUR 178.8 mln as at 31 December 2022), is composed of SRF-related charges of EUR 58.6 mln (EUR 88.7 mln as at 31 December 2022), and contributions paid to the DGS of EUR 75.1 mln (EUR 90.1 mln as at 31 December 2022).

The line “DTA fee” includes the expenses related to the fee paid on convertible DTAs into tax credit as set forth in art. 11 of Italian Law Decree no. 59 of 3 May 2016, converted into Italian Law no. 119 of 30 June 2016.



Section 13 - Net provisions for risks and charges – Item 200

13.1 Net provisions for credit risk relative to commitments to disburse funds and financial guarantees given: breakdown

Transaction/P&L items	Stage 1	Stage 2	Stage 3	Total 31 12 2023	Total 31 12 2022
1) Financial guarantees issued	3,554	(5,535)	(28,496)	(30,477)	(20,470)
Provision for the year	(5,685)	(7,793)	(29,071)	(42,549)	(35,466)
Write-backs	9,239	2,258	575	12,072	14,996
2) Commitments to disburse funds	(34)	1,030	14,129	15,125	18,439
Provision for the year	(6,783)	(2,688)	-	(9,471)	(6,929)
Write-backs	6,749	3,718	14,129	24,596	25,368
Total	3,520	(4,505)	(14,367)	(15,352)	(2,031)

13.2 Net provisions relative to other commitments and guarantees given: breakdown

At the reporting date of these Financial Statements and for the financial year of comparison, there were no provisions of this type.

13.3 Other net provisions for risks and charges: breakdown

Items/Amount	31 12 2023			31 12 2022		
	Provisions for the year	Write-backs	Net Provisions	Provisions for the year	Write-backs	Net Provisions
Legal disputes	(117,212)	503,785	386,573	(197,529)	256,479	58,950
- cost	(87,979)	500,133	412,154	(187,460)	188,506	1,046
- discounting effect	(29,233)	3,652	(25,581)	(10,069)	67,973	57,904
Personnel expenses	(5,165)	5,517	352	(31,682)	9,094	(22,588)
Other risks and charges	(22,278)	102,876	80,598	(113,702)	86,026	(27,676)
Total	(144,655)	612,178	467,523	(342,913)	351,599	8,686

As at 31 December 2023, “Legal and tax disputes” and “Other risks and charges” recorded a significant net write-back due mainly to the improvement in the risk profile of legal, civil and criminal proceedings respectively, and other out-of-court claims concerning financial information disclosed in the period 2008-2015, following the favourable rulings issued in the last quarter of 2023.



Section 14 - Net adjustments to/recoveries on property, plant and equipment - Item 210

14.1 Net adjustments to property, plant and equipment: breakdown

Assets / P&L items	Depreciations	Impairment losses	Recoveries	Net Profit (loss) 31 12 2023	Net Profit (loss) 31 12 2022
A. Property, plant and equipment					
A.1 Used in de business	(108,331)	(21)	-	(108,352)	(118,885)
- owned	(61,051)	-	-	(61,051)	(67,981)
- Right of Use acquired through leasing	(47,280)	(21)	-	(47,301)	(50,904)
A.2 Held for investmet	-	-	-	-	-
- owned	-	-	-	-	-
- Right of Use acquired through leasing	-	-	-	-	-
3. Inventories	X	-	-	-	-
Total	(108,331)	(21)	-	(108,352)	(118,885)

Section 15 - Net adjustments to/recoveries on intangible assets - Item 220

15.1 Net adjustments to intangible assets: breakdown

Assets/P&L items	Depreciations	Impairment losses	Recoveries	Net profit (loss) 31 12 2023	Net profit (loss) 31 12 2022
A. Intangible assets					
<i>of which: software</i>	<i>(66,533)</i>	<i>(697)</i>	-	<i>(67,230)</i>	<i>(67,349)</i>
A.1 Owned	(66,587)	(697)	-	(67,284)	(68,586)
- generated internally by the company	(15,872)	(589)	-	(16,461)	(16,509)
- other	(50,715)	(108)	-	(50,823)	(52,077)
A.2 Right of Use acquired through leasing	-	-	-	-	-
Total	(66,587)	(697)	-	(67,284)	(68,586)



Section 16 - Other operating expenses/income - Item 230

16.1 Other operating expenses: breakdown

Item/Values	Total 31 12 2023	Total 31 12 2022
Costs of robberies	(510)	(377)
Depreciations of leasehold improvements recognised as Other assets	(6,166)	(5,995)
Cost of financial lease transactions	(5,644)	(4,220)
Costs from judgments and settlement agreements	(19,822)	(30,341)
Other	(27,482)	(16,468)
Total	(59,624)	(57,401)

16.2 Other operating income: breakdown

Items/Amounts	Total 31 12 2023	Total 31 12 2022
Rents from investment real estate	8,229	6,815
Recovery of taxes	171,211	165,410
Recovery of insurance premiums	2,148	2,899
Income from financial lease transaction	6,110	3,448
Recovery of other expenses	29,822	35,102
Other	57,554	71,281
Total	275,074	284,955

The amount of EUR 29.8 mln classified under “Recovery of other expenses” includes, among other things, the compensation of legal fees incurred for the enforced recovery of bad loans of EUR 4.0 mln (EUR 4.2 mln as at 31 December 2022).

The Group has no income deriving from the sublease of assets consisting in the right of use (IFRS 16.53 (f)).

“Other operating income” does not include any revenues under the scope of IFRS 15.

The Group does not have any variable income not related to an index or a rate deriving from leasing activities (IFRS 16.90 b).

**Section 17 - Gains (losses) on investments - Item 250****17.1 Gains (losses) on investments: breakdown**

P&L items/Sectors	Total 31 12 2023	Total 31 12 2022*
1) Jointly owned companies		
A. Income	-	-
1. Revaluations	-	-
2. Gains on disposal	-	-
3. Write-backs	-	-
4. Other income	-	-
B. Expense	-	-
1. Write-downs	-	-
2. Impairment losses	-	-
3. Losses on disposal	-	-
4. Other expenses	-	-
Net Profit (Loss)	-	-
2) Companies subject to significant influence		
A. Income	91,058	95,390
1. Revaluations	90,793	95,390
2. Gains on disposal	-	-
3. Write-backs	-	-
4. Other income	265	-
B. Expense	(7,450)	(1,329)
1. Write-downs	-	(559)
2. Impairment losses	(6,572)	-
3. Losses on disposal	-	-
4. Other expenses	(878)	(770)
Net Profit (Loss)	83,608	94,061
Total	83,608	94,061

The amount of EUR 90.8 mln recognised in line 2) A.1 “Revaluations” is predominantly due to the results of equity investment in associates, especially AXA MPS Vita S.p.A. and AXA MPS Danni S.p.A.

The amount of EUR 6.6 mln reported on line 2) B.2 “Net impairment losses” refers to the write-down of the associate Fidi Toscana.



Section 18 - Net gains (losses) on property, plant and equipment and intangible assets measured at fair value - Item 260

18.1 Net gains (losses) on property, plant and equipment and intangible assets measured at fair value (or revalued) or at presumed realisable value: breakdown

Assets/P&L items	Revaluations (a)	Write- downs (b)	Exchange difference		Net profit (loss) (a+b+c+d)	Net profit (loss) 31 12 2022
			Positive (c)	Negative (d)		
A. Properties, plant and equipments	6,407	59,551	-	-	(53,144)	(31,111)
A.1 Used in the business	2,847	31,282	-	-	(28,435)	(10,643)
- owned	2,847	31,282	-	-	(28,435)	(10,643)
- right of use acquired through leasing	-	-	-	-	-	-
A.2 held for investment	3,540	26,964	-	-	(23,424)	(18,226)
- owned	3,540	26,964	-	-	(23,424)	(18,226)
- right of use acquired through leasing	-	-	-	-	-	-
A.3 Inventories	20	1,305	-	-	(1,285)	(2,242)
B. Intangible assets	-	-	-	-	-	-
B.1 Owned	-	-	-	-	-	-
- generated internally by the company	-	-	-	-	-	-
- other	-	-	-	-	-	-
B.2 Right of use acquired through leasing	-	-	-	-	-	-
Total	6,407	59,551	-	-	(53,144)	(31,111)

The item, which was negative for a total of EUR 53.1 mln (EUR 31.1 mln was the negative balance of the previous financial year), includes the results of the fair value measurement of “revalued property, plant and equipment used in the business” and “property, plant and equipment held for investment purposes” and finally “inventories of property, plant and equipment”, represented by owned real estate assets.

Section 19 - Impairment of goodwill - Item 270

19.1 Impairment of goodwill: breakdown

Owing to its indefinite or unlimited useful life, goodwill is tested at the end of each financial year to assess whether its book value is fairly stated or recoverable. The impairment test performed in 2023 did not result in any value adjustments on the goodwill allocated to the Widiba CGU (Cash Generating Unit), as it confirmed the recoverability of the book value.

For additional information concerning the methods for conducting impairment tests, see the appropriate section in Part B of the Notes to the financial statements, Section 10.1 of Assets “Intangible assets: breakdown by type”.

**Section 20 – Gains (losses) on disposal of investments – Item 280****20.1 Gains (losses) on disposal of investments: breakdown**

P&L items/Sectors	Total	Total
	31 12 2023	31 12 2022
A. Property	427	222
- Gains on disposal	432	453
- Losses on disposal	(5)	(231)
B. Other assets	(74)	616
- Gains on disposal	3	786
- Losses on disposal	(77)	(170)
Net Profit (Loss)	353	838

The Group has not recognised any gains or losses deriving from sale and lease-back transactions (IFRS 16.53 letter i).

Section 21 – Tax expense (recovery) on income from continuing operations – Item 300**21.1 Tax expense (recovery) on income from continuing operations: breakdown**

P&L items/Sectors	Total	
	31 12 2023	31 12 2022
1. Current tax (-)	(86,119)	(1,244)
2. Adjustments to current tax of prior years (+/-)	4,757	51,087
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	8,567	27
4. Changes in prepaid taxes (+/-)	414,238	372,771
5. Changes in deferred taxes (+/-)	3,674	3,979
6. Tax expense for the year (-) (-1+/-2 +3+/-4+/-5)	345,117	426,620

The amount in line 4. “Deferred tax assets: annual changes” reflects the positive imbalance between the overall effect of the DTA valuation arising from the results of the probability test, amounting to EUR 827.2 mln, and the net reversals for the year. The result of the valuation of the DTAs for the year is impacted by the non-recurring income of EUR 545.2 mln relating to the reassessment of DTAs from consolidated tax losses caused by the repeal of the ACE (for more information, see Section 11.8 - Part B - Balance Sheet Information of these Notes to the financial statements).



21.2 Reconciliation of theoretical to actual tax charge

Items/Amounts	31 12 2023	%	31 12 2022	%
Pre-tax profit (loss) from continuing operations	1,706,508		(605,129)	
Profit (loss) before tax	1,706,508		(605,129)	
Theoretical IRES Payable	(469,290)	27.5%	173,654	27.5%
Permanent increases	(1,451)	0.1%	(5,624)	-0.9%
Losses on sale of equity instruments designated at fair value through other comprehensive income	20	0.0%	(16)	0.0%
Non-deductible administrative expenses (Municipal real estate property tax, vehicles, telephone, etc.)	(1,471)	0.1%	(5,608)	-0.9%
Permanent decreases	35,008	-2.1%	31,598	5.2%
Gains on sale of equity instruments designated at fair value through other comprehensive income	(115)	0.0%	(71)	0.0%
Gains on disposal of subsidiaries and associates	486	0.0%	235	0.0%
Deduction IRAP	17	0.0%	-	0.0%
Deduction ACE	34,620	-2.0%	31,434	5.2%
Reversal of impairment losses on subsidiaries and associates	26,028	-1.5%	25,379	4.2%
DTA write-downs related to prior tax losses	670,409	-39.3%	(75,251)	-12.4%
Other DTA write-downs	154,423	-9.0%	402,412	66.5%
DTA ACE write-downs	2,361	-0.1%	35,133	5.8%
IRAP credit valuation effect from conversion of ACE surpluses	-	0.0%	46,354	7.7%
Effect due to non-registration of DTA on tax loss of current year	-	0.0%	(225,084)	-37.2%
Other components (IRES relative to previous years, spreads between Italian and foreign tax rate, etc.)	(3,005)	0.2%	1,436	0.2%
Effective IRES Payable	414,483	-24.3%	402,763	66.6%
Theoretical IRAP payable	(79,353)	4.65%	28,138	4.65%
Economic items not relevant for IRAP purposes	15,636	-0.9%	(2,882)	-0.5%
Value adjustments and credit losses	35	0.0%	1,403	0.2%
Non-deductible costs of personnel	(181)	0.0%	(173)	0.0%
Profit (loss) on subsidiaries and associates	(2,460)	0.1%	(1,679)	-0.3%
Other non-deductible administrative expenses (10%)	(4,126)	0.2%	(4,412)	-0.7%
Amortization non-deductible (10%)	(811)	0.0%	(836)	-0.1%
Provisions for risk and charges	21,710	-1.3%	636	0.1%
Other economic items not relevant	1,469	-0.1%	2,179	0.4%
Increase regional rates effect	(10,967)	0.6%	5,402	0.9%
Charges from not recognised tax loss carryforward IRAP	-	0.0%	(40,114)	-6.6%
Adjustments DTA	-	0.0%	29,467	4.9%
Tax refunds from previous years	4,077	-0.2%	1,469	0.2%
Other components (IRAP relative to previous years, spreads between Italian and foreign tax rate, etc.)	1,241	-0.1%	2,377	0.4%
Effective IRAP payable	(69,366)	4.1%	23,858	3.9%
Total effective IRES and IRAP tax expense	345,117	-20.2%	426,620	-25.0%

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 Italian Law no. 208 of 28 December 2015, par. 65-66.

The reconciliation shows that the theoretical charge of the nominal taxation on the pre-tax profit was more than offset in the year by the income deriving from the valuation of the DTAs; in the table, the lines entitled "DTA valuation effect" express the amount of deferred tax assets, accrued but not recognised in the financial statements of the previous year due to lack of estimated future taxable income, which were revalued in the current financial statements, in part to the extent in which were mostly used during the year to offset the positive final income higher than forecasts, and in part to the extent to which they will be mostly recovered in future years following the repeal of the ACE. Apart from the aforementioned extraordinary factors, in accordance with current tax regulations and assuming the achievement of the income results outlined in the Group's business



plan, it is expected that the Bank will in any case record a progressive reassessment of DTAs from tax losses in each of the next financial years in the medium term (until they are fully recognised), with corresponding income under taxes in the income statement, which will reduce the tax rate in the financial statements; this, considering the high amount of tax loss carried forwards available with off-balance sheet DTAs and the prudential assumptions underlying the probability test (time period limited to 20 years and application of a discount rate to the prospective results). For further information, please refer to paragraph 10.7 – Part B – Information on the Balance Sheet of these Notes to the financial statements.

Section 22 - Profit (loss) after tax from discontinued operations - Item 320

22.1 Profit (loss) after tax from discontinued operations: breakdown

The table has not been completed as there are no gains (losses) on discontinued operations for the current financial year and the financial year of comparison.

Section 23 – Profit (loss) attributable to non-controlling interests – Item 340

23.1 Details of item 340 “Profit (loss) attributable to non-controlling interests”

	Total 31 12 2023	Total 31 12 2022
Consolidated equity investments with significant non-controlling interests	-	-
Other equity investments	(156)	(148)
Total	(156)	(148)

Section 24 – 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 25 - Earnings per Share (EPS)

25.1 Average number of diluted ordinary shares

25.2 Other information

Itmes/Amounts	31 12 2023		31 12 2022*	
Weighted average number of ordinary shares outstanding (no. of Shares)	1,259,689,706		209,865,416	
Net Profit (loss) (Euro/th):				
Related to Parent Company continuing operations	2,051,781		(178,361)	
Related to Parent Company discontinued operations	-		-	
Attributable to Parent Company	2,051,781		(178,361)	
EPS (euros):	Base	Diluted	Base	Diluted
Related to Parent Company continuing operations	1.629	1.629	0.850	0.850
Related to Parent Company discontinued operations	-	-	-	-
Attributable to Parent Company	1.629	1.629	0.850	0.850

* Earnings per share as at 31 December 2022 were restated, with respect to those posted at the reporting date, following the retrospective application of IFRS 17 and IFRS 9 changes by the insurance associates.

Note that Basic EPS and Diluted EPS are the same, as there were no outstanding financial instruments with potential dilutive effects.



Part D – Consolidated statement of comprehensive income

**Analytical consolidated Statement of comprehensive income**

Items	Total 31 12 2023	Total 31 12 2022
10. Profit (loss) for the year	2,051,625	(178,509)
Other income components without reversal to profit or loss	(29,495)	22,183
20. Equity instruments measured at fair value through other comprehensive income	(4,491)	2,580
a) changes in fair value	2,228	2,104
b) Transfer to other component of net equity	(6,719)	476
30. Financial liabilities designated at fair value through profit or loss (change in the entity's own credit risk)	(4,111)	(5,230)
a) changes in fair value	(4,111)	(5,230)
50. Property, plant and equipment	(31,085)	(29,992)
70. Defined benefit plans	7,500	13,016
80. Non-current assets held for sale and disposal groups	(2,790)	6
90. Share of valuation reserves of equity instruments valued at equity	(6,619)	49,166
110. Tax income related to other income components without reversal to profit or loss	12,101	(7,363)
Other income components with reversal to profit or loss	84,391	(210,443)
130. Exchange differences:	(1,526)	1,025
c) other changes	(1,526)	1,025
140. Cash flow hedges:	2,383	-
a) changes in fair value	2,383	-
160. Financial assets (other than equity instruments) measured at fair value through other comprehensive income	113,243	(247,781)
a) changes in value	97,453	(242,113)
b) reversal to profit & loss	15,790	(5,668)
-impairment provisions	-	-
-relised net gains/losses	15,790	(5,668)
c) other changes	-	-
180. Share of valuation reserves of equity-accounted investments	11,314	(65,406)
a) changes in fair value	11,314	(66,215)
b) reversal to profit & loss	-	809
-impairment provisions	-	-
-relised net gains/losses	-	809
c) other changes	-	-
210. Tax income related to other income components with reversal to profit or loss	(41,023)	101,718
220. Other income components	54,896	(188,260)
230. Total comprehensive income (Item 10 + 190)	2,106,521	(366,769)
240. Consolidated comprehensive income attributable to non-controlling interests	(180)	(167)
250. Consolidated comprehensive income attributable to Parent Company	2,106,701	(366,602)



Part E - Information on risks and hedging policies

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Note: Public Disclosure (Basel III Pillar) is published on the Group's website: <https://www.gruppomps.it/investor-relations>.



Foreword

A summary of the organisation of the MPS Group's risk governance and the related processes and key functions is described below. An estimate of the Overall Internal Capital and a description of the relative assessment models are also provided.

For more detailed information on the Group's Risk Governance and risk culture, please refer to the Consolidated Report on Operations.

Risk governance system

The risk governance system adopted by the Group is characterised by a clear-cut distinction of roles and responsibilities of the different functions at first, second and third level of control.

Policies relating to the assumption, management, coverage, monitoring and control of risks are defined by the statutory bodies of the Parent Company. In particular:

- the Parent Company's Board of Directors defines and approves strategic guidelines and risk management policies and, at least once a year, quantitatively expresses the Group's overall risk appetite in terms of economic capital (Risk Appetite);
- the Board of Statutory Auditors and the Risk and Sustainability Committee evaluate the level of efficiency and adequacy of the internal control system, with particular regard to risk control;
- the CEO/General Manager is responsible for ensuring compliance with risk policies and procedures;
- the Director in charge of the internal control and risk management system, appointed in compliance with the Corporate Governance Code for listed companies, is responsible for creating and maintaining an effective system of internal control and risk management.

Specific Management Committees responsible for risk issues have been established in order to promote efficiency and flexibility in the decision-making process and facilitate interactions between the various company functions involved:

- the Risk Management Committee establishes Risk Management policies, evaluates the Group's risk appetite in accordance with annual and long-term Group value-creation targets and ensures and monitors overall compliance with the limits defined for the various operating levels; evaluates the risk profile reached and therefore the capital consumption at both Group level and for each individual company;
- the Finance and Liquidity Committee formulates the principles and strategic guidelines relating to proprietary finance; it resolves upon and submits proposals regarding exposures to interest rate and liquidity risk in the banking book and defines capital management actions;
- the Credit Committee formulates policies in relation to credit processes and formulates an opinion, at least once per year, on credit policies by verifying their commercial sustainability and consistency with risk appetite levels. Based on the authorities assigned to it, it is also responsible for taking decisions with respect to lending and the management of problem receivables and assets.

As part of the Internal Control System, the Chief Audit Executive Department conducts third-level controls, the Chief Risk Officer Department and the Chief Compliance Executive Department carry out second-level controls and the Business Control Units (BCUs) carry out first-level controls.

The Chief Audit Executive Department performs an independent and objective assurance and advising activity, aimed both at monitoring operations compliance and risk trends (including through on-site audits) as well as assessing the efficiency of the overall internal control system in order to improve the effectiveness and efficiency of the organisation. It also acts as Internal Secondary Supervisor with a view to focusing on the main characteristics of the prudential supervision process adopted by the European Supervisory Authority and on the orientations/priorities outlined by the latter over time so as to evaluate the Group's positioning with respect to the expectations of the Single Supervisor.

The Chief Risk Officer (CRO) Department, reporting directly to the Board of Directors and functionally reporting to the CEO, performs activities related to risk control, anti-money laundering and counter-terrorist financing (hereinafter AML) and internal approval functions. The Head of the CRO Department, in addition to being responsible for the risk control function, has also been responsible for the AML function. Moreover, the internal validation function reports to the CRO, as set forth in the Supervisory regulations and as internally transposed in the Group policy regarding the internal control system.



This Department therefore has the following tasks:

- to guarantee the overall functioning of the risk management system;
- to participate in the definition and control of the Risk Appetite Framework (RAF), as well as ensure that significant transactions are consistent with the RAF;
- to verify capital adequacy based on the ICAAP and liquidity adequacy based on the ILAAP;
- to monitor the Recovery Plan indicators;
- to ensure the necessary reporting flows to the Group's Top Management and Governance bodies;
- to guarantee proper and adequate control activities for the Group Companies that have outsourced the analogous corporate function;
- to perform the anti-money laundering duties envisaged by Law and the internal validation of risk management models.

In particular, within the Chief Risk Officer Department, the structure of the risk control function is assigned to a single Risk Management organizational unit, which includes 6 second-level organizational units (Risk Integration and Reporting, Credit Risks, Rating, Operational Risks, Market Risks and Wealth Risk Management, Liquidity Risks and ALM).

The Chief Compliance Executive Department performs the function of monitoring compliance with the regulations for the Parent Company. The function is directly responsible for managing risks relating to the violation of the most significant rules in Bank-Customer relations and it periodically reports to the company's top management and supervisory authorities regarding the overall state of compliance of the Bank's systems and operations. The Compliance function reports directly to the CEO.

The Financial Reporting Manager exercises governance, oversight and coordination functions over the entire accounting and corporate disclosure process, for which they are responsible for control, documentation of procedures and internal and external communication to the Group. With this in mind:

- sets out adequate administrative and accounting procedures for the preparation of the separate financial statements and the consolidated financial statements;
- promotes the evolution of the methods and systems for controlling the reliability of corporate accounting information, in terms of identification, management, control and mitigation;
- oversees, limited to its own area of competence, the functioning of the risk management system of the company and verifies compliance with it;
- verifies the adequacy and effectiveness of the measures taken to remedy the shortcomings identified;
- verifies the correctness of the accounting system, preparing adequate analysis methods;
- draws up the certifications/declarations in compliance with the formal obligations required by law and regulations.

The outlying BCUs operating within the subsidiaries or main business areas, carry out compliance checks on the transactions and are the first level of organisational supervision of transactions within the broader Internal Control System.

In compliance with the requirements of autonomy and independence of each participating function, there is also a Function Coordination Committee in place with control responsibilities. The Committee promotes and shares operational and methodological aspects to identify possible synergies in control activities carried out by second and third-level Functions, coordinate methods and timing for planning and reporting to the Corporate Bodies and project initiatives connected with the Internal Control System, and share areas for improvement identified by all Functions with control responsibilities as well as the Supervisory Authorities.



Requirements of autonomy and independence of the Risk Management Function

The Chief Risk Officer is the head of the Parent Company's Risk Control Function.

The Function's autonomy and independence are ensured as it reports directly to the Corporate Body with strategic supervisory functions (the Board of Directors) and only functionally to the Management Body (CEO/GM). It has direct access to the Body with control functions (Board of Statutory Auditors) and may communicate continuously with no restriction or intermediation. The CRO is also entitled at their discretion to participate in Risk and Sustainability Committee meetings to intervene or propose discussions on specific topics.

In particular, the Board of Directors appoints and removes the Parent Company's Chief Risk Officer, upon proposal by the Risk and Sustainability Committee, with the assistance of the Appointments Committee, having consulted the Board of Statutory Auditors.

The remuneration of the Parent Company's Chief Risk Officer is determined and approved by the Board of Directors upon proposal by the Remuneration Committee, having heard the opinion of the Risk and Sustainability Committee.

Activities relating to the international Regulatory framework

Pillar 1: since 2008, the Group has used internal models validated by the Bank of Italy for the measurement and management of credit risk (AIRB - Advanced Internal Rating Based) and operational risk (AMA - Advanced Measurement Approach). Over time, and in collaboration with the Supervisory Authorities, these models have been further enhanced and their scope of application extended to Group entities not originally included in the initial validation scope.

Pillar 2: during the year, in particular, work continued with activities aimed at ensuring compliance with the Supervisory Review and Evaluation Process (SREP) framework and further improving the Group's capital adequacy and liquidity self-assessment processes (ICAAP - Internal Capital Adequacy Assessment Process and ILAAP - Internal Liquidity Adequacy Assessment Process), with the mandatory reporting provided to the Supervisors.

The internal assessment of capital/liquidity adequacy are two processes that are part of the more general Risk Management macro-process, in direct connection with the Risk Appetite Framework (RAF) through the annual formulation of the Risk Appetite Statement (RAS) with related thresholds.

The overall internal capital/liquidity adequacy assessment process takes place periodically as part of the strategic ICAAPs and ILAAPs mainly through:

1. ICAAP/ILAAP Outcomes, or quantitative (inherent risk) and qualitative (risk management and controls) assessments on risk positioning prepared by the Risk Control Function and submitted to the Board of Directors for its own resolutions (Capital Adequacy Statement and Liquidity Adequacy Statement), i.e. the summary declarations prepared by the Board of Directors where it expresses its vision and awareness regarding the management of the adequacy of the capital situation and the current and future adequacy of liquidity.
2. Ongoing ICAAP/ILAAP, which consists substantially of periodical analyses of capital and liquidity adequacy which are described in the periodical reports of the Risk Control Function to the corporate bodies.

In 2023, the Risk Appetite Framework, the overall internal reference framework for the determination of the Group's risk appetite, was further developed. In addition, the Group was also engaged in several improvement projects on the system for the management of the various risks and in particular regarding the Institution Stress Test.

Pillar 3: public disclosure is provided on a quarterly basis through the Group's internet site www.mps.it/investors and is continuously updated in accordance with regulatory developments.

Analysis of the Internal Capital

The Overall Internal Capital (or Overall Absorbed Internal Capital) is the minimum amount of capital resources required to cover economic losses resulting from unforeseen events caused by the simultaneous exposure to different types of risk.

The main types of risks incurred by the Group in its day-to-day operations can be summarily described as follows:

- Credit risk;



- Market risk;
- Operational risk;
- Banking book interest rate risk;
- Counterparty risk;
- Real estate risk;
- Issuer risk;
- Concentration risk;
- Equity investment portfolio risk;
- Business/Strategic risk;
- Model risk;
- Liquidity risk;
- Reputational risk.

All of the types of risk mentioned above are involved in quantifying the Overall Internal Capital, with the exception of liquidity and reputational risk that, instead, are mitigated through organisational policies and processes.

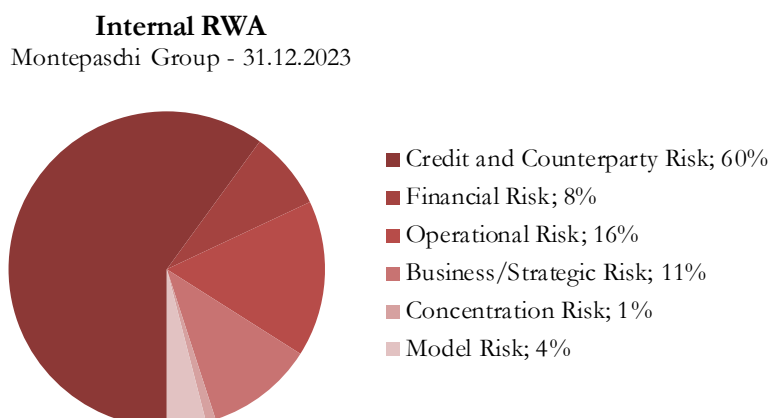
Risks inherent in investment products/services for the Group's customers are also monitored, with a view to protecting the customer and preventing any potential reputational repercussions.

Risk assessment models

The Risk Management Function regularly quantifies the Internal Capital for each type of risk and periodically reports these to the Risk Management Committee and to the Governing Bodies as part of the reporting flows prepared by the Chief Risk Officer Department.

The approach used to quantify and supplement the risks-to-capital with regard to which the Group is exposed is known as Pillar 1 Plus. This approach envisages that the Pillar 1 requirements for Credit and Counterparty Risk (which already include those relating to Issuer Risk on the Banking Book, Equity Investment Risk and Real Estate Risk) and Operational Risk, be increased (avoiding double counting) by the requirements from internal models relating to Market Risks, of both Trading Book and Banking Book, Banking Book Interest Rate Risk (Financial Risk), Concentration Risk, the Business/Strategic Risk and the Model Risk.

Overall Internal Capital is calculated without considering inter-risk diversification, therefore by directly adding together the internal capital contributions of the individual risks (Building Block approach). This approach aims to incorporate the indications in the SREP (Supervisory Review and Evaluation Process) Guidelines published by the EBA.





The Group also manages and quantifies liquidity risk on an ongoing basis (risk-to-liquidity, as defined in the SREP Guidelines) through internal organisational methodologies and policies.

Section 1 – Consolidate accounting risk

Quantitative Information

A. Credit quality

For the purposes of quantitative information on credit quality:

- the term “on-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 or loss, measured at fair value through other comprehensive income, measured at amortised cost, non-current financial assets held for sale and disposal groups). Sight receivables from banks and central banks fall within the definition of on-balance sheet exposures but are conventionally excluded from the tables in Section 1, except in the cases expressly indicated in which they must be considered;
- 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, impairment (losses), trend and breakdown by business sector

A.1.1 Breakdown of financial assets by portfolio and credit quality (book values)

31 12 2023

	Bad loans	Unlikely to pay	Past-due non-performing exposures	Past-due performing exposures	Other performing exposures	Total
1. Financial assets measured at amortised cost	441,606	1,227,820	102,480	481,500	88,291,011	90,544,417
- of which forborne	93,506	613,733	7,686	44,369	1,083,328	1,842,622
2. Financial assets measured at fair value through other comprehensive income	-	-	-	-	2,249,883	2,249,883
- of which forborne	-	-	-	-	-	-
3. Financial assets designated at fair value	-	-	-	-	-	-
- of which forborne	-	-	-	-	-	-
4. Other financial assets mandatorily measured at fair value	2,874	2,461	184	40,374	138,828	184,721
- of which forborne	15	1,889	26	-	18,131	20,061
5. Financial asset held for sale	-	-	-	-	-	-
- of which forborne	-	-	-	-	-	-
Total 31 12 2023	444,480	1,230,281	102,664	521,874	90,679,722	92,979,021
Total 31 12 2022	451,183	1,225,549	35,379	383,954	90,722,137	92,818,202

As at 31 December 2023, forbearance exposures amounted to EUR 1,862.7 mln (EUR 2,333.1 mln as at 31 December 2022), of which EUR 716.9 mln was impaired (EUR 614.4 mln as at 31 December 2022) and EUR 1,145.8 mln was non-impaired (EUR 1,718.7 mln as at 31 December 2022) and are predominantly in the “Financial assets measured at amortised cost - Loans to customers” portfolio. For further information on these exposures, please refer to table A.1.5 below.



A.1.2 Breakdown of financial assets by portfolio and credit quality (gross and net values)

31 12 2023

Portfolio/quality	Non performing assets				Performing assets			Total (Net exposure)
	Gross exposure	Impairment (loss)	Net exposure	Total Partial Write-off**	Gross exposure	Impairment (loss)	Net exposure	
1. Financial assets measured at amortised cost	3,477,036	1,705,129	1,771,907	29,258	89,258,980	486,470	88,772,510	90,544,417
2. Financial assets measured at fair value through other comprehensive income	-	-	-	-	2,252,044	2,161	2,249,883	2,249,883
3. Financial assets designated at fair value	-	-	-	-	X	X	-	-
4. Other financial assets mandatorily measured at fair value	30,846	25,326	5,520	2	X	X	179,201	184,721
5. Financial asset held for sale	-	-	-	-	-	-	-	-
Total 31 12 2023	3,507,882	1,730,455	1,777,427	29,260	91,511,024	488,631	91,201,594	92,979,021
Total 31 12 2022	3,318,637	1,606,526	1,712,111	28,711	91,306,472	453,875	91,106,091	92,818,202

**Value to be presented for disclosure purposes

At the reporting date, the Group has 29 positions relating to creditors who have applied for a “blank” arrangement procedure (54 in 2022) for a net exposure of approximately EUR 27.1 mln (EUR 14.3 mln as at 31 December 2022). As at 31 December 2023, there were no outstanding positions relating to creditors who resorted to the creditor arrangement procedure on a going concern basis (1 position in 2022).

As at 31 December 2023, the Group holds impaired financial assets acquired for a nominal value of EUR 29,4 mln, classified in the portfolio “Financial assets measured at amortised cost” at the price of EUR 2.3 mln.

The following table provides evidence of the credit quality referring to credit exposures classified in the portfolio of financial assets held for trading (securities and derivatives) and hedging derivatives (not shown in the previous table):

	Low quality assets		Other assets
	Cumulative losses	Net exposure	Net exposure
1 Financial assets held for trading	58,511	332	5,694,766
2 Hedging derivatives	-	-	704,125
Total 31 12 2023	58,511	332	6,398,891
Total 31 12 2022	59,283	1,521	7,237,853



B. Information on structured entities (other than securitisation vehicles)

B.1 Consolidated structured entities

As at 31 December 2023, there are no structured entities consolidated in the accounts, other than the securitisation companies, falling within the scope of the MPS Group.

B.2 Structured entities not consolidated for accounting purposes

B.2.1. Prudentially consolidated structured entities

As at 31 December 2023, the MPS Group does not hold structured entities that are not consolidated for accounting purposes, but that are consolidated for supervisory purposes.

B.2.2 Other structured entities

Qualitative Information

For disclosures pursuant to IFRS 12 please refer to the comments provided under the table below.

Quantitative Information

Balance sheet item/Type of structured entity	Accounting portfolio: Assets				Accounting portfolio: Liabilities		Net book value (C=A-B)	Maximum exposure to loss (D)	Difference between exposure to loss and book value (E=D-C)
	Held for trading	Financial assets measured at fair value through profit and loss	Financial assets measured at fair value through other comprehensive income	Total assets (A)	Held for trading	Total liabilities (B)			
1. Special Purpose vehicles	-	-	-	-	-	-	-	-	-
2. UCITS	923,060	182,011	27,331	1,132,402	(258,517)	(258,517)	873,885	887,088	13,203
Total	923,060	182,011	27,331	1,132,402	(258,517)	(258,517)	873,885	887,088	13,203

UCITS

The aggregate includes, in the column 'Financial assets held for trading':

- EUR 97.9 mln (EUR 65.4 mln as at 31 December 2022) relating to the interests held by the Group in units of Bond Funds and Exchange Traded Funds that invest in shares, bonds and derivatives. These units are purchased for the hedging of risks generated by the issue of structured bonds and funds placed through the network by the Bank or for the purpose of repurchasing on the secondary market the structured funds for which the original structuring was done;
- EUR 819.0 mln (EUR 1,101.1 mln as at 31 December 2022) relating to exposures in financial derivatives with positive fair value to Anima Funds for EUR 471.3 mln - an Irish fund managed by Anima Asset Management - and to the asset funds Anima Patrimonio - Italian funds managed by Anima SGR - and Axa Im Deis respectively for EUR 346.9 mln and EUR 0.8 mln managed by AXA Investment Managers. The Axa Im Deis fund is a fund divided into sub-funds that has been purchased by MPS AXA Financial Limited and represents the fund to which the benefits of the unit-linked policies placed with the Group's customers under the name "AXA MPS Valore Performance" are connected.

The column financial assets measured at fair value through profit or loss includes:

- EUR 53.2 mln (EUR 57.8 mln as at 31 December 2022) relating to interests held in private equity funds, whose purpose is to increase the value of the respective equity through mainly medium to long-term investments chiefly in the purchase and/or subscription of shares, units and securities in general representing the equity of target enterprises, exclusively in the best interest of the investors;
- EUR 4.3 mln (EUR 3.8 mln as at 31 December 2022) relating to the closed-end Italian direct lending fund Anima Alternative A, reserved for professional investors that invest primarily in debt instruments and for a non-controlling interest in minority shareholdings;



- EUR 116.3 mln (EUR 129.8 mln as at 31 December 2022) relating to units held in multi-segment closed-end Italian alternative investment fund (Idea CCR I and II, Back2Bonis, Efesto, Clessidra) These funds aim to contribute to the re-launch of medium-sized Italian companies in financial difficulty;
- EUR 8.2 mln (EUR 7.9 mln as at 31 December 2022) relating to units held in a closed-end private contribution real estate fund for qualified investors (*Athens RE Fund B*). The fund, managed by Unipol Sai Investimenti SGR, holds prestigious tourism complexes located in Tuscany and Sicily;

The column “Financial assets measured at amortised cost” includes loans granted to the counterparty Athens RE Fund B of EUR 27.3 mln (EUR 28.0 mln as at 31 December 2022).

The column ‘Financial liabilities held for trading’ includes:

- EUR 258.5 mln (EUR 271.2 mln as at 31 December 2022) relating to the negative fair value of financial and credit derivatives to Anima Funds for EUR 224.1 mln and to the securities funds Anima Patrimonio and AXA Im Deis, amounting respectively to EUR 33.9 mln and EUR 0.5 mln.

The entities in question finance themselves by issuing units.

The maximum exposure to the risk of loss was determined to be equal to book value for exposures to units of UCITS other than the financial and credit derivatives for which reference is made to positive fair value plus the add-on (calculated also taking into account positions with a negative fair value). For UCITS, the maximum risk exposure also includes the Group’s commitments not yet called up by the funds, to subscribe additional units.

During the financial year under review, the Group did not provide and does not intend to provide financial or other support to the non-consolidated structured entities referred to above.

There are no sponsored non-consolidated entities for which the Group holds no interests at the reporting date.



Section 2 - Risks of prudential consolidation

1.1 - Credit risk

Qualitative Information

1 General

Within the guidelines approved by the Parent Company's Board of Directors, and in line with the evolution of the supervisory regulatory framework, the Group pursues the primary objective of improving the quality of the loan book and consequently reducing the cost of credit.

The Group's credit activity is managed with a view to strong proactive behaviour in risk monitoring and enhancement of growth opportunities, through the development of credit policies and systems aimed at making the most of trend data in connection with individual debtors, against a background of in-depth knowledge and strategic management of positions.

Impacts deriving from the rise rates and disaster events

The MPS Group had to manage the credit risk associated with two significant events that occurred in 2023: the impacts on retail customers resulting from the substantial increases in interest rates, and the repercussions on companies operating in the areas of Emilia-Romagna affected by the flood.

The first event, coinciding with the monetary policy decisions to increase the reference rates adopted by the ECB to cope with the exponential rise in inflation, significantly worsened the fees due by borrowers of floating-rate loans, with particular reference to retail customers who have mortgage loans.

The Group, pursuant to Italian Budget Law no. 197 of 28 December 2022, has provided for, as a support measure to borrower customers with pre-set requirements pursuant to law, including first and foremost an ISEE (i.e., the equivalent economic situation indicator) of less than 35 thousand euros and a floating rate on the entire duration of a loan not exceeding 200 thousand euros, the possibility of converting the rate from floating to fixed and possibly resorting to a rescheduling of the plan up to a maximum of 5 years. The Group has also extended the range of beneficiaries of the renegotiation to those who do not fall within the scope according to the law.

For counterparties deemed to be riskier, in accordance with the credit standards in force on the detection of concessions and non-performing exposures, the Group has defined a specific process for the management of rate renegotiations, including the obligation to investigate financial difficulties.

In addition, the new early warning system (EWS) - implemented at the beginning of 2024 within the Credit Monitoring management application - made it possible to promptly identify the customers most impacted by the rise in rates, determining the transfer of the respective credit lines to the stage 2 if belonging to the highest risk class, at the same time allowing specific management actions to be taken to reduce the credit risk.

As at 31 December 2023, there were approximately 32 thousand loans for which i) the spread applied to the rate was renegotiated or ii) the interest rate was transformed from floating to fixed for a total exposure of approximately EUR 3.5 bn.

In addition, in order to normalise the risk profile for the riskiest borrower customers, identified in the household and small business segment with a significant increase in the instalment-to-income ratio above certain sustainability thresholds, a rescheduling of the payment plan accompanied, where appropriate, by partial suspension measures or even instalments reductions, were proposed to those falling within the identified scope.

The initiative involved around 15.5 thousand customers in the household and small business segment for an exposure of around EUR 1.2 bn, with a forbearance rate of around 11%.

Regarding the second event, 2023 was characterized by several flooding events that hit Italy, resulting in a series of initiative taken by government and banks in order to support households and companies.

These include the Italian Law Decree no. 61 of 1 June 2023, then converted into law on 31 July 2023, containing "Urgent interventions to deal with the emergency caused by the flood events that occurred starting from 1 May 2023", following which the Group promptly suspended the deadlines for the May and June instalments relating to loans granted to companies with registered offices and operating offices in the flooded areas.

The residual debt of the loans subject to the suspension pursuant to law amounted to approximately EUR 500 mln and concerned approximately 2,000 credit lines; subsequently, during the third quarter of 2023, a contact campaign



was launched with the companies benefiting from the suspension in order to verify their possibility of regularly resuming payments in such a way as to resort, depending on the results of the aforementioned campaign, to the unblocking of amortisation plans or, alternatively, to the proposal of a rescheduling measure or, in general, of further forbearance.

As at 31 December 2023, new forbore concessions were activated in the amount of approximately EUR 20 mln, while the amortisation plan was applied to the remaining part of the portfolio and/or no situation of structural financial difficulty was reported beyond the temporary criticality caused by the flood event.

2 Credit risk management policies

2.1 Organisational aspects

As its distinctive mission, the Chief Lending Officer Department performs activities of credit risk taking and operational monitoring of credit quality, giving guidance and support to the network in credit activities, directly managing impaired loans, including financial restructuring transactions, and monitoring the impacts of various credit transactions on the cost of credit.

The Chief Lending Officer Department is sub-divided, inter alia, into three first-level functions specialised in the management of Performing and Non-Performing loans.

The Performing function, divided into Retail Lending and Corporate Lending, exercises decision-making autonomy consistent with credit policy objectives and prepares credit operation plans aimed at preserving the quality of exposures and promptly resolving anomalies in the relationship with debtor customers.

Within the Retail Lending chain there is a second-level structure called Credit Management and Proactive Retail, which exercises responsibility for the disbursement of credit and for monitoring the quality of the credit portfolio for the purpose of preventing deterioration events; in the Corporate Lending chain, the disbursement and prevention of anomalies are assigned to two separate functions, respectively called Corporate Credit and Proactive Business Management. In addition, the second level functions specialised in Consumer Credit and Business Management of small amounts operate within the Retail Lending function; finally, also at the second level, two Steering and Monitoring structures have been set up in both Retail and Corporate, which are responsible for defining and implementing initiatives to improve the quality of the credit portfolio.

Within the Chief Lending Officer Department operate, mirroring the Corporate and Retail Commercial Departments, the Regional Retail and Corporate Credit Departments, which implement the guidelines received from their respective first-level functions in the General Management, exercising delegated powers in credit matters consistently with the credit strategies defined by the Parent Company.

The First-Level Non-Performing Function, responsible for the management of non-performing loans, is divided into five second-level structures; among these, the Unlikely to Pay, the Restructuring and the Workout functions exercise the decision-making powers assigned to manage non-performing exposures and bad loans, both on an ordinary basis, through the use of collections strategies, write-offs and balances, back to bonis, and on an extraordinary basis, by supporting the first level function in setting up and executing block sale transactions with or without securitisation; the other two second-level functions are the NPE Steering and Monitoring function responsible for operationally and strategically directing the deliberating functions in accordance with the Parent Company's credit policy objectives, and the Post Sale Portfolio Management responsible for managing relations with assignees, with particular reference to the analysis of claims received after asset disposal transactions.

The Chief Lending Officer (CLO) also has two other first-level functions reporting directly to him:

- The Credit Portfolio Governance, which is divided into four second-level structures, is responsible for monitoring the value of collateral and document management, for the governance of the liability cycle, for the definition of credit strategies and standards, and, through the Credit Innovation function, the implementation of decision-making systems for credit disbursement and monitoring by means of scoring, segmenting and algorithms;
- Credit Control, as the function responsible for supporting the CLO in monitoring, supervision and management reporting activities, both in terms of key performance indicators (KPIs) and key risk indicators (KRIs), as well as carrying out the relevant credit controls pursuant to Law 262 and in compliance with the provisions on the new definition of default.



2.2 Management, measurement and control systems

Banca Monte dei Paschi di Siena, in its capacity as Parent Company, has defined the standards of conduct that must be adopted in order to ensure the balanced assumption and management of credit risk; to this end, it quantifies and monitors credit quality so that it is always consistent with the set-out objectives.

The main metrics used to pursue these guidelines are: the Probability of Default (PD) which expresses the probability that the customer will default over a given period of time, typically one year; the Loss given default (LGD) which expresses the expected loss in the event of insolvency - taking into account the effect of the guarantees that mitigate the assumption of risk related to the credit line - the size of the exposure in the event of default EAD and the duration of the exposure (maturity).

Since 2008, the Supervisory Authority has authorised the Group to use advanced internal rating systems to determine capital requirements for credit risk. In particular, the Group is currently authorised to use, for the business portfolio and retail exposures, the internal estimates of the PD, LGD and EAD on Banca MPS and Widiba.

These internal models, as well as for reporting purposes, are used in various management processes for the Group's operating purposes.

All credit processes use the borrower rating as a decision-making driver, and they are defined based on the specific nature of various customer segments in order to optimise the use of resources employed in loan management/monitoring and to achieve the right balance between the push for sales and an effective loan management system.

In particular, as regards the credit process related to the granting of credit, this is differentiated according to the type of customer and transaction requested and provides for the possibility of performing the rating process for each counterparty, not allowing the exercise of decision-making powers in the absence of a valid rating. The counterparty rating of the Group is the result of a process that assesses in a transparent, structured and homogeneous manner all economic, financial, performance and qualitative information relating to customers that generate credit risks. The official rating thus determined has ordinary validity until the twelfth subsequent month and must be revised by the end of that month. It is subject to a monitoring process that can anticipate its ongoing revision if significant changes in statistical PDs are identified, exceeding certain cut-offs.

In order to increase efficiency levels in managing internal ratings, the internal rating agencies operating in local areas have become the single point of reference for all units on rating issues. The role of the rating agencies allows for a closer interaction with the network to make assistance more effective, generate more synergies and enable a more efficient transfer of knowledge.

Credit quality is also part of a monthly monitoring process aimed at ensuring compliance with the thresholds established both in the Risk Appetite Framework (RAF) and in the Credit Policies in order to ensure consistency on an ongoing basis between the Group's actual risk profile and the risk appetite decided ex-ante by the Board of Directors.

The annual RAF is formalised in the "Risk Appetite Statement" (RAS) approved by the Board of Directors and based on a set of key risk indicators (KRI) defined at Group, legal entity and business unit level, including indicators aimed at monitoring the expected concentration levels on large exposures and related parties and which also make it possible to monitor the maximum level of exposure and therefore of RWA on individual counterparties.

As part of the RAS, the risk management and measurement systems put in place by the Group allow continuous monitoring of the risk profile and periodic reporting to the Corporate Bodies, with the activation of appropriate escalation and remediation mechanisms in the event of breaches of the relevant thresholds.

Forecast sustainability, as regards credit risk, is ensured by the definition of concrete loan book actions which are communicated to the outlying networks through an internal regulatory document as well as by amending the credit disbursement and management processes and criteria.

Value adjustments to performing and non-performing exposures are determined using methodologies compliant with IFRS 9, as described in section "2.3 Methods to measure expected losses".

Again with regard to value adjustments, the Board of Directors of the Parent Company, subject to the favourable opinion of the Risks and Sustainability Committee, approves the amendments likely to produce "significant" impacts, relating to: (i) verification of the significant increase in credit risk (SICR) for the allocation of credit



portfolios to the various risk stages and (ii) the determination of the assumptions and data relating to the models for determining the expected loss (ECL) on a collective and individual basis⁴⁷.

The above changes also include management overlays for the purpose of including ad hoc adjustments, not captured by current models, to better reflect uncertainties related to the macroeconomic environment in the valuation of loans. In this regard, during the 2023 financial year, the Group has defined and implemented a process that involves a cross-functional working group on a quarterly basis which, having reviewed the salient variables of the most current macroeconomic scenarios available, defines the metrics of any overlays to be activated, which are subsequently subject to control by the Validation function. The results of the analyses carried out are brought to the attention of the Risk Management Committee which, subject to the opinion of the Validation Function, may approve the results.

Lastly, with regard to regulatory, accounting and management credit risk, the Group has defined a macroeconomic regression model to estimate changes in PD/LGD/EAD as a function of key macroeconomic variables. Drivers that significantly explain variations in individual models are first identified and on the basis of the regression model, credit driver disturbances are then estimated according to the current and prospective economic situation. The shock caused by macroeconomic factors determines the change in the parameters of the credit portfolio, triggering for example the simulation of a hypothetical counterparty downgrading, with consequent risk variations in terms of expected loss, unexpected loss and input from new defaults.

2.3 Methods to measure expected losses

The internal PD, LGD and EAD models for credit risk measurement are one of the main elements of assessment for all Group units involved in the credit industry, both at Head Office level (Risk Management, Credit, Chief Financial Officer, General Management, Risk Committee, Board of Directors) and at branch level (Rating agencies and Managers). The Group is currently authorised to use the Advanced Internal Rating Based (AIRB) models to determine capital requirements against credit risk, according to PD, LGD and EAD parameters, on business portfolios and retail exposures of the Parent Company and Banca Wibi S.p.A. In fact, the ECB has authorised the roll-out of the AIRB models on Banca Wibi S.p.A. starting from the regulatory reporting of 31 December 2023.

The development of the internal rating systems involved the adoption of strict and advanced statistical methodologies in compliance with the requirements set out in the regulations; at the same time, models were selected in such a way as to make results consistent with the historical experience of the Group in credit management. Finally, in order to optimise the proper use of these new instruments, the rating models were shared with a top-down approach – from Risk Management down to individual client managers. Estimation of the LGD model was based on internal data relative to capital flows, recoveries and expenses actually incurred on positions transferred to the “default” portfolio. Results obtained from model application were then compared with data recorded by the Workout function which is dedicated to the management and recovery of non-performing loans.

The main characteristics of the advanced rating systems are as follows:

- for all validated regulatory portfolios, the rating is calculated with a counterparty-based approach for each individual borrower, in line with the accepted management practice which provides for the assessment of credit risk, both in the disbursement and monitoring phases;
- the rating is based on a Group logic: each individual counterparty is assigned a single rating at Group level; while the LGD is defined at the ratio level;
- the rating model segmentation is defined in such a way as to make the individual model clusters consistent with commercial objectives, credit processes and regulatory portfolios set out in the regulations;
- the calculation of the final rating is differentiated by type of counterparty. The credit process envisages a level of in-depth analysis proportional to counterparty risk: the assessment of loan disbursements is based on a complex multi-level structure for medium-large corporate counterparties, whose exposure and concentration risks are higher, and a simplified structure for Small Business and Retail clients;
- in line with this process, the final rating for medium-to-large corporate companies, counterparties with a turnover of more than EUR 50 mln and a loan balance of more than EUR 2 mln, is determined as i) an integration of several components: statistical rating, ii) qualitative rating, iii) override option and rating of the economic group to which they belong;

⁴⁷ Significant changes are those that, individually or as a whole, during a quarter, involve changes in expected losses exceeding a given absolute or relative threshold.



- in the case of small business and retail counterparties, on the other hand, the rating is normally calculated on the basis of statistical factors alone (except in the case of reasoned requests for override, so-called statistical rating modified by technical anomaly correction or for optional corporate override on substantiated requests);
- the rating has a 12-month internal validity period and is usually reviewed on a yearly basis, except for rating reviews following well-structured codified practices or that are brought forward on client managers' request or following serious counterparty deterioration; the Group adopts individual cluster scales that allow each subject with a granted credit or to be granted credit, i.e. not in default, to be assigned a risk profile best suited to the characteristics of the segment in which it operates. These different risk segments/models are linked to a single master scale for all types of exposures for management purposes, enabling all units involved in credit management to immediately compare the risk level associated with different counterparties or portfolios; furthermore, the probabilities of default of internal rating classes were mapped against Standard&Poor's external rating scale so as to make internal risk measurements comparable to those available on the financial market;
- LGD reflects the economic (and not only the accounting) loss incurred; for this reason, LGD estimates must also include the costs incurred for the collection process and a time factor;
- loss given default is differentiated by type of loans and a LGD value is assigned at the level of each individual transaction; it is also differentiated by geographical area since historical and current recovery rates are different among northern, central and southern Italy and islands;
- the estimation of the loss rate on positions in a state of default other than non-performing was carried out according to the danger rate logic.

The development and monitoring of rating systems has been functionally assigned to Risk Management and is subject to control by the Internal Validation and Internal Control functions.

As of March 2023, the new regulatory models of PD, EAD and LGD - approved by the ECB through the Final Decision received in March 2023 - went into effect. These models, in addition to taking into account the new definition of default, ensure compliance with the regulatory requirements of the EBA/GL/2017/16 (effective from 2022) and rectify the findings noted in the previous inspections carried out by the Supervisory Authority.

Below are the highlights of the AIRB models currently implemented (Model change 2021) in the context of regulatory PD, LGD and EAD models.

PD models:

- new segmentation of PD models to identify parameters corresponding to the different customer categories in the portfolio. For this purpose, specific thresholds were identified using statistical approaches on some analytical risk drivers such as customer turnover and/or product type on the estimate perimeter;
- the revision of the model design that must include certain stages (Risk differentiation-score model estimate, Risk Quantification-Calibration and introduction of the Margin of Conservatism (MoC));
- definition of different cluster scales for each calibration segment to meet all regulatory requirements;
- the revision of the long-term default rate on which the PD model calibration is based must be specified based on the *Likely range of variability* (LRofV);
- change in the methodology used for the Risk Quantification, which can be carried out in two different ways: at the level of calibration segment or at the level of individual class on the reference cluster scale. The choice of the best methodology of the two depends on the characteristics of the analysis segment;
- estimation of *Appropriate Adjustment* and *MoC (pejorative factor)* following the introduction of the new definition of default, to address weaknesses in terms of data and/or changes in internal processes that may have an impact on PD.

Model LGD Before and After Classification as Bad Loan (jointly LGD) and EAD:

- the estimate sample includes all customers in default not classified with a Bad Loans status until January 2020 for the models LGD Before Classification as Bad Loans, and all customers with Bad Loans status until 31 December 2019 for the model of LGD Bad Loan; for EAD, the estimation sample includes all customers in default until January 2020;
- to calculate LGD rates and EAD values appropriate to the different types of customers in the portfolio, specific analysis axes were identified to sub-segment the estimate sample;
- a special treatment was specified for anomalous values of LGD and EAD;
- the LGD and EAD estimate process was integrated with specific statistical and econometric tests to guarantee more robust results;



- estimate of a downturn adjustment to include in the LGD and EAD a worsening due to the occurrence of recessions;
- revision of the MoC estimate;
- new analyses of model performance (i.e. back testing) through specific statistical tests that compare the LGD and EAD estimated values with the values actually observed;
- introduction for the LGD of a specific approach to manage Incomplete Workouts (i.e. customers for which the collection process is still ongoing) and art. 500 CRR2 (i.e. securitised customers);
- cash flows (recoveries and costs) of LGD are discounted using the 3-month Euribor rate + a prudential spread equal to 5%;
- management of multiple defaults (i.e. default that reoccur within 9 months from the end of the previous default) for the LGD Before Classification as Bad Loan;
- estimate of the expected loss for the exposures in default (LGD Expected Loss Best Estimate);
- segregation of the interest portion and calculation of the loss on the principal amount only (for LGD Before Classification as Bad Loan);
- for the LGD Bad Loan alone, a time factor (MRP) is estimated to identify those recovery processes for which, despite being still in progress, no further and significant recoveries are expected.

2024 Model Change AIRB Models

During 2023, a revision of the PD, LGD and EAD regulatory models (2024 Model Change) was carried out with the aim of updating the estimates used and resolving the findings noted in by the Supervisory Authority on 2021 Model Change. The highlights of the 2024 Model Change in context of the regulatory PD, LGD and EAD models are described below.

PD models:

- recalibration of all models with the update of the calibration time series, i.e. inclusion of the years from 2020 to 2022;
- refinement of the LRofV;
- assessment and introduction of Physical Risk (C&E) components in the models. In particular, the acute physical risk component (landslides and accidents) has been included for the Corporate segment, within the statistical rating scope (companies with a turnover of less than EUR 50 mln and an agreement of less than EUR 2 mln), and in the Retail segment; on the remaining counterparties, the results of the ESG questionnaire administered to companies with a turnover of more than EUR 50 mln and so far only used for outlook purposes, will be used.
For the corporate segments, the transition risk component was also tested on the basis of the internal taxonomy already defined by the Group, but it was not found to be significant. For the C&E variables, the physical risk variables, available in the ISPRA, ISTAT and “Corpo Forestale dello Stato” [State Forestry Commission] databases, were extracted, linked by key municipality of residence at the various reference dates with the counterparts in the sample, and from the raw variables other variables were constructed in terms of ratios. The objective was therefore to test the significance of these components in the rating models in order to make them contribute to the traditional components, first to define the score model and then the final PD;
- revision of the qualitative questionnaire component for the Corporate segments;
- revision of the Segment scale clusters; in continuity with the model currently in production (MC21), individual cluster scales were built by rating segment, then linked into a master scale, the latter used only for management purposes;
- updating of the various frameworks. In particular, the MOC framework, with the revision and quantification of MOC C (general estimation error) always defined by rating class.

Model LGD Before and After Classification as Bad Loan and EAD:

- the estimate sample includes all customers in default not classified with a Bad Loans status until January 2023 for the models LGD Before Classification as Bad Loans, and all customers with Bad Loans status until 31 December 2022 for the model of LGD Bad Loan; for EAD, the estimation sample includes all customers in default until January 2023;
- modification of the definition of the Maximum Recovery Period (MRP): refinement of the process of identifying the MRP with the verification of additional risk drivers;
- refinement of the framework for estimating the Expected Loss Best Estimate;



- revision of the EAD estimation methodological approach, in particular we have the transition from the variable window approach (cohorts) to the fixed window approach.

The models subject to revision with the Model change 2024 (MC24) will be submitted to authorisation by the supervisory authority for their use in the calculation of the regulatory requirement during 2024.

At present, based on the preliminary analysis performed, no significant impact on RWA (risk weighted assets) is expected as a result of changes in regulatory models.

Accounting models

For the determination of the expected losses required by IFRS 9, the Parent Company has adopted specific accounting models that have been developed starting from the regulatory models indicated above through a number of adjustments, including in particular:

- adoption of a Point in Time (PIT) PD, appropriately supplemented with forward-looking information, against the Through the Cycle (TTC) PD used for regulatory purposes;
- the removal from the LGD of the regulatory components as better detailed below;
- the use of multi-period PDs and LGD rates that adjust according to the temporal dynamics of the model's drivers (such as loan-to-value) in order to determine the expected loss over the entire residual life of the financial instrument (stage 2 and 3).

For additional details on the methods to determine impairment losses under IFRS 9, definition of default and the methods used by the Group to classify financial assets among non-performing assets, see the paragraph "Methods for calculating impairment on IFRS 9 financial instruments" of Part A "Accounting policies", as well as the paragraph below "Non-performing loans" of these notes to the consolidated financial statements.

In 2023, the PD and LGD models were re-estimated to follow the evolution of the regulatory models developed for the purposes of the 2024 Model Change, appropriately adjusted to reflect the current conditions of the economic cycle. The re-estimation in question entailed higher adjustments for a total of EUR 205.8 mln, mainly attributable to the LGD parameter, with stage 2 exposures remaining largely unchanged.

PD IFRS 9

The re-estimation of the PD model resulted in higher net value adjustments for a total of EUR 2.9 mln and concerned:

- the updating of the macroeconomic models used for the forward-looking estimate of the probability of default through: i) the inclusion of the latest data available (from the first quarter of 2012 to the second quarter of 2023) ii) the differentiation of the riskiness of retail customers between fixed and floating rate mortgages and iii) the introduction of greater sectoral detail on corporate customers using sectoral gross value added (GVA) (i.e. sector GDP); this update, together with the update of the scenarios approved by the Group in November 2023, resulted in lower provisions totalling EUR 17.6 mln;
- lengthening of the time series used for the multi-year probability of default curves, including the two-year period January 2021-January 2023;
- recalibration of the point-in-time PDs using the annualised default rate of the first nine months of 2023 instead of the two-year period 2021-2022, as they are considered more representative of the actual deterioration of the macroeconomic context; the recalibration of the PD PIT together with the lengthening of the historical series resulted in higher provisions of EUR 10.0 mln;
- adoption of a nine-month floor on the maturity date of the individual facility on the self-liquidating product. This measure led to higher provisions for a total of EUR 10.5 mln.

The estimation of the multi-period PD curves is characterised by a statistical analysis on the available drivers through a segmentation process of the estimation database, followed by a parametric modelling of the survival data to obtain multi-period default probability curves. The database used for the estimation is obtained from the historical data of observed Group relationships for the estimate period, which goes from January 2012 to January 2023. The segmentation process is based on the analysis of the survival curves, which consists in finding the rates of survival to the default event within the pre-set drivers, and the degree of separation between the survival curves for the modes of each driver is calculated through a statistical test (LogRank Test). Following the definition of the clusters through the segmentation process, we chose the type of survival models to be used for the construction of the cumulative PD curves and estimated them. The model in production therefore provides for the identification of specific curves differentiated by segment, product, rating class, seniority of the loan, geographical area of counterparty, and Ateco class.



LGD IFRS 9

In previous years, the Group had updated the LGD IFRS 9 model, in particular in 2020 to adapt it to the new definition of default, which came into force on 1 January 2021, and in 2021, to follow developments of the regulatory models developed for the purposes of the 2021 Model Change with some specific measures and finally in the course of 2022 in order to take into account new information acquired during the inspection concerning the risk of corporate and SME exposures. In detail, the changes in the estimate of the previous year concerned: i) treatment of mass disposals of non-performing loans, (ii) alignment of the weight of the positions subject to sale included in the estimate of the accounting LGD with that of the future disposals expected as part of the NPE Strategy, and (iii) treatment of multiple defaults. For more details, please refer to section “2.3 Methods for measuring expected losses” in the Consolidated Financial Statements as at 31 December 2022.

Compared to the regulatory model, specific elements have been removed in order to comply with accounting regulations and to achieve a more predictive LGD measure, including:

- elimination of downturn effects, i.e. the LGD estimates do not include negative factors related to any recessionary periods observed in the Bank's history;
- any *MoCs* are not considered;
- indirect expenses, i.e. expenses that the Group incurs to manage the entire collection process and not directly attributable to the individual customer (i.e. personnel costs, legal expenses, etc.), are not considered for the purpose of determining the LGD;
- the final LGD is discounted at the effective interest rate (EIR) in order to consider the time effect in the management of the collection process;
- in order to obtain a reactive LGD to possible future macroeconomic conditions, a forward-looking factor is estimated starting from specific econometric analyses conducted on macroeconomic forecasting scenarios;
- inclusion of any type of guarantee linked to the customer in the portfolio;
- regarding unlikely to pay and non-performing past-due loans, the regulations require special precautions in the development of AIRB models, including the representation of the risk drivers selected for the final grid over time. The aggregation of the Past Due (PD) and Unlikely To Pay (UTP) risk classes arises from the evidence observed in recent years according to which UTP cases are currently much more present than historical averages, while PD cases are less relevant and limited only to initial vintage. For accounting purposes, in order to capture the intrinsic risk between the different default statuses, the separation between PD and UTP is maintained. For UTP counterparties, the loss rates were estimated considering only UTP customers. On the other hand, given the lower relevance of the PD counterparties, which can make the process of estimating the contextual loss parameters less robust, the estimation approach that includes the use of the sample composed of both PD and UTP was maintained;
- treatment of massive transfers: the losses realised by “ordinary” disposals over the last few years were included in the data-set of the LGD estimate, in place of the incomplete work-out treatment set forth in the regulatory models. Therefore, the so-called “extraordinary” transactions, i.e. those relating to positions subject to LGD Waiver (Valentine transaction and partially Morgana and Merlino) are excluded from the estimate.

It should be noted that in 2023, the LGD model was re-estimated to take into account the evolution of the regulatory models developed for the purposes of the 2024 Model Change, appropriately adjusted to reflect the current conditions of the economic cycle (point in time perspective). More specifically:

- **LGD Bad loans:** some analyses were carried out to verify the possibility of estimating a more predictive model than the regulatory version, over a very long time period, which in the new MC24 version reaches a range of 23 years (1999-2022). The analyses carried out have led to a reduction of the time series from 23 to 17 years (2006-2022), in place of the previous series standing at 20 years, as this time period is being considered, also with regard to the results of the back- testing, the one that best makes it possible to appreciate the reduction in recovery rates due to higher transfers. In detail, the choice fulfils the combined provisions of three purposes: (i) time series as “point-in-time” as possible, (ii) significant number of applications that have completed the work-out process and (iii) quality of back-testing results.
- **LGD Before Classification as Bad Loans:** the time series, obtained by recalibrating the suffering LGD through the danger rate module over an 11 year time horizon, used for the restatement does not include the years 2009, 2010, 2011, in line with the regulatory models. The amendment was made to eliminate the



impact in the estimates of the short cycles of default observed in that period due to the application of the historical reconstruction of the new definition of default, and supplemented with the new defaults observed up to January 2023 (time series 2012-2023).

The overall re-estimation of the LGD model resulted in higher provisions for a total of EUR 202.8 mln, of which EUR 106.1 mln relating to the Bad loans LGD and 96.7 mln to the LGD Before Classification as Bad Loans. Lastly, the accounting model was aligned with the regulatory model regarding the deductibility of interest following entry into default. Consequently, the exposure on which the loss realised by the Group is calculated considers where possible, only the capital portion and no longer the interest portion.

EAD IFRS 9

Again in the context of the 2021 Model Change, the Group updated the regulatory model for the Exposure at the time of default (EAD) and at the same time also the EAD IFRS 9 model. The latter differs from the regulatory model for the exclusion of the downturn component, potentially the MoCs and the inclusion of expectations on forward looking trends.

Measurement of significant increase in credit risk (SICR)

As is well known, IFRS 9 requires that if a significant increase in credit risk is identified - *Significant Increase in Credit Risk* (SICR) - which involves the need to classify exposures to stage 2, it is necessary to assess the expected losses over the entire remaining life of the credit exposure. In the other cases (absence of significant increase in credit risk), the expected loss is calculated with reference to the time frame of 12 months (exposure included in the so-called stage 1).

In the approach adopted by the Group, the parameter that measures the change in credit risk and, therefore, any “significant” increase in risk, is the default risk, expressed by the changes in the lifetime probability of default over the entire residual life of the financial asset (hereafter, “Delta PD lifetime”), measured between the date of first recognition of the relationship, or tranche if a debt security, and the observation date, with respect to a threshold value, specific to each transaction, determined according to the relevant risk characteristics.

In addition to lifetime PD, the MPS Group takes into consideration three other elements in identifying the SICR: (i) days past due as an indicator of non-performance of the counterparty’s creditworthiness, a non-performance that becomes presumptively “significant” if the past due date exceeds 30 days; (ii) the concession of forbearance measures; (iii) the presence of high risk elements found for positions belonging to the *Proactive Management* portfolio.

During the 2023 financial year, taking into account the macroeconomic context characterised by the increasing rise in rates, the Group has introduced through overlay a collective criterion for classification in stage 2 represented by retail and corporate customers with turnover of less than EUR 50 mln, not already classified in stage 2 due to the absence of other qualitative/quantitative criteria for increasing credit risk, to which the internal early warning system (EWS) has assigned the highest internal risk class. This correction resulted in an increase in stage 2 as at 31 December 2023 of approximately EUR 147.9 mln.

The table below shows the percentage incidence of the different classification criteria described above: with respect to the gross exposure of loans classified as stage 2 as at 31 December 2023.

Classification criteria	GROUP			
	% impact on GBV of Stage 2 loans	of which: Corporate	of which: retail	of which: other
Past due 30 days	1.3%	50.8%	34.5%	14.7%
Forborne	10.9%	71.5%	23.8%	4.7%
High Risk	51.2%	77.4%	18.0%	4.6%
EWS (overlays)	4.8%	14.1%	85.9%	0.0%
Quantitative	31.9%	84.4%	15.5%	0.1%

With regard to debt securities, the Group has decided to i) use the “Low Credit Risk Exemption” for which securities with low credit risk, identified by a rating equal to “investment grade” are classified in stage 1 and only in the event of a loss of the “Investment grade level are they subject to a test relating to the significant deterioration of the credit risk with respect to the initial date”, (ii) use the FIFO (First In-First Out) method, in order to compare,



for each individual tranche of debt securities purchased, its original creditworthiness against the one attributed to it at the reporting date; (iii) use for the purposes of identifying the existence of a “significant increase” in credit risk a qualitative criterion that determines the allocation to stage 2 of tranches belonging to counterparties in the high risk management portfolio.

With particular reference to the quantitative indicator, it should be noted that the lifetime PD is assigned to the individual relationships based on the segment, product, initial rating class and vintage, both at the date of first recognition and at the reporting date. The PDs used in the assessment of the SICR are the same as those used for the calculation of the ECL, which include the forecast of future macro-economic factors. The above-described relative change in lifetime PD represents the quantitative indicator of the change in credit risk over the reporting period from origination. In order to establish whether an increase is to be considered significant, and therefore if it would entail a different allocation in the stages, specific thresholds are defined:

- if the relative change in lifetime PD observed on the position is lower than the significance threshold, then the increase in credit risk is deemed not significant and the position is classified in stage 1 with assessment of the expected loss in the following 12 months;
- if the relative change in lifetime PD observed on the position is higher than the significance threshold, then the increase in credit risk is considered significant and the position is classified in stage 2 with assessment of the expected loss over the entire residual life of the instrument.

This threshold value is determined using statistical models deriving from the analysis of the distribution of lifetime PD changes in the portfolio. The calibration of the threshold is defined at a level for which the significant increase in credit risk is set at least equal to the level of long-term non-performance of the portfolio, which is observed from the historical migration matrices of the ratings.

By way of example, the following table shows the maximum values of the transfer thresholds for the Group’s main loan portfolios consisting of cash loans to customers belonging to the Corporate and retail segments of the 2 banks (Banca MPS and Widiba). It should be noted that the table shows an aggregation with respect to the drivers represented by the rating, at origination, and by the vintage.

Segment	Product	Ateco	Area	Threshold (max)
Large Corporate	All	Other than construction, commercial, manufacturing and transport	All	38.76%
Large Corporate	All	commercial, manufacturing and transport	All	38.76%
Large Corporate	All	construction	All	38.76%
Corporate	All	Other than construction, commercial, manufacturing and transport	All	38.76%
Corporate	All	commercial, manufacturing and transport	All	38.76%
Corporate	All	construction	All	38.76%
Multi-year real estate companies	All	Other than construction, commercial, manufacturing and transport	All	17.85%
Multi-year real estate companies	All	construction	All	17.85%
SMEs	Single product that is neither leased nor paid by instalments	All	All	2.82%
SMEs	Single leasing product or instalment product, or multiple products at the same time	All	All	12.23%
Small Business	Single product that is neither leased nor paid by instalments	All	All	15.89%
Small Business	Single leasing product or instalment product	All	All	15.89%
Small Business	several types of products at the same time	All	All	15.89%
Partnerships - Sole proprietorships	Single product that is neither leased nor paid by instalments	All	All	16.08%
Partnerships - Sole proprietorships	Single leasing product or instalment product, or multiple products at the same time	All	All	16.53%
Small SMEs	Single product that is neither leased nor paid by instalments	All	All	11.04%
Small SMEs	Single leasing product or instalment product, or multiple products at the same time	All	All	12.10%
Retail mortgages	All	All	Center, North-West, North East	76.28%
Retail mortgages	All	All	South and islands	76.28%
Retail no mortgages	Single product that is neither leased nor paid by instalments	All	All	89.95%
Retail no mortgages	Single leasing product or instalment product, or multiple products at the same time	All	All	140.99%



It should also be noted, although insignificant in terms of impacts on the transition to stage 2, the mandatory classification in stage 2 in the event of an increase of more than 200% of the Lifetime PD. In fact, it should be noted that the thresholds indicated above are lower than the trigger of 200%.

Starting from the second half of 2023, also in order to resolve a finding reported from the inspection activity (OSI 0198380) regarding credit and counterparty risk, the Group has also introduced a criterion for the validation of the quantitative criteria of the finalised stage transition to reduce the high volatility observed in the staging transitions in the 2020-2021 two-year period.

The solution adopted was to stabilise the staging based on the quantitative criterion alone, identifying, according to the observations of the previous months, the optimal window of balances in the new stage so that the transition can be confirmed. The analyses conducted identified four continuous months (the current month plus the previous three months) as the optimal balance period for the validation of the stage. This choice led to a net decrease in stage 2 as at 31 December 2023 of approximately EUR 300 mln with a consequent decrease in adjustment provisions of approximately EUR 14 mln.

As regards the “forbearance” trigger, which in any case represents a marginal share of the Stage 2 classification reasons, it should be noted that the permanence in Stage 2 is anchored to the duration of the probation period, consequently the possible return to Stage 1 is subject to at least two years from the date of the grant and the absence, in the event of return to fully performing status, of additional qualitative-quantitative indicators of significant increase in credit risk.

Measurements of expected losses

The methodology for estimating the ECL adopted for the purposes of the determination of value losses on credits in accordance with the IFRS 9 international standard is carried out, as previously indicated, at the level of individual transaction or security tranche, starting from IRB modelling for 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 requirements of the standard.

In particular, the measurement of financial assets 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. In the context of IFRS 9, also based on indications from international Regulators, importance is given in particular to information on future macroeconomic scenarios in which the Group may operate and clearly affects the situation of debtors 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, in compliance with the provisions of IFRS 9, based on which the ECL estimate must result from the weighting of a range of possible forward-looking scenarios (“weighted probability”), the impairment model adopted by the Group provides for the use of a baseline scenario, i.e. the use of the scenario that is believed to be most likely, together with two alternative scenarios.

The scenarios are processed internally by the Study and Research Function, also on the basis of forecasts contributed by a leading external supplier, they are approved by the Board of Directors and are also adopted in other processes of the Group that use forward looking elements such as the Risk Appetite Framework (RAF), Recovery Plan, budget, forecast, impairment tests of goodwill and equity investments. The scenarios differ in their degree of favour/adversity to economic development and growth, a detailed description of which can be found in Part A – Section “A. 2 - Part relating to the main items of the financial statements” and in particular in the paragraph “Macroeconomic scenarios of the Group for the valuation of loans in the 2023 financial statements”, to which reference is made.

In December 2023, the Group approved a set of forecast macroeconomic scenarios for the 2024-2027 period developed internally, taking also as reference the forecasts developed by external providers. These scenarios were used as part of the ordinary annual planning process and the calculation of value adjustments of performing and non-performing loans as at 31 December 2023.

As at 31 December 2023, for the purposes of estimating the ECL, unlike what had occurred as at 31 December 2022, the Group has adopted the symmetrical treatment not only for the SICR but also for the calculation of the ECL, using a baseline scenario, an improving and a pejorative one, weighted on the basis of the reference percentiles. The use of two worst-case scenarios (worst extreme and severe but plausible) instead of one best-case scenario was dictated by the need to mitigate the uncertainty characterising the macroeconomic environment; uncertainty that is now mitigated through the use, in the baseline scenario, of more conservative macroeconomic indicators in comparison with the forecast projected by the main institutional sources. These indicators were also



further adjusted downwards, through specific overlays, to take into account the uncertainties deriving from climatic and environmental factors and from the refinancing risk that could impact the real estate market.

Following is information on the main macroeconomic and financial indicators used in the “baseline” and “severe but plausible-case” and “best-case” scenarios, referring to the three year period 2024-2026, the estimate of which was developed in October 2023:

- the “baseline” scenario appears to be a modest growth scenario characterised by an expansion of Italy’s GDP of 0.43% in 2024, 0.83% in 2025 and 0.88% in 2026, a slightly decreasing unemployment rate from 7.69% in 2024 to 7.30% in 2026 and decreasing short-term and increasing long-term interest rates;
- the “severe but plausible” scenario is characterised by an initial moderate contraction of Italy’s GDP of -0.40% in 2024, to grow by 0.45% in 2025 and 0.49% in 2026, by an expected increasing unemployment rate, from 8.03% in 2024 to 8.96% in 2026. The expected trend of short-term interest rates is decreasing, while that of long-term interest rates is increasing;
- the “best” scenario is characterised by sustained growth in Italy’s GDP, especially in the first two years, an expected decreasing unemployment rate, from 7.31% in 2024 to 5.59% in 2026, an expected trend in rates of decreasing short-term interest and increasing long-term interest rates.

Scenario	Year	GDP	Unemployment rate	Consumer Price Index	Interbank rate interest 3M	Eurirs 10Y	Interest rate on Btp’s 10-years	short-term interest rate on loans to families and companies
Baseline	2024	0.43%	7.69%	2.43%	4.01%	3.49%	4.63%	5.10%
	2025	0.83%	7.55%	2.14%	3.57%	3.78%	4.95%	4.60%
	2026	0.88%	7.30%	2.15%	3.10%	3.84%	5.04%	4.22%
	AVG	0.71%	7.51%	2.24%	3.56%	3.71%	4.87%	4.64%
Severe but plausible	2024	-0.40%	8.03%	4.01%	4.46%	3.50%	4.94%	5.44%
	2025	0.45%	8.54%	2.53%	3.88%	3.68%	5.29%	4.91%
	2026	0.49%	8.96%	2.28%	3.35%	3.73%	5.25%	4.48%
	AVG	0.18%	8.51%	2.94%	3.90%	3.64%	5.16%	4.94%
Best	2024	1.49%	7.31%	1.43%	3.82%	3.83%	4.81%	4.96%
	2025	1.40%	6.52%	1.33%	3.32%	3.97%	4.77%	4.38%
	2026	1.18%	5.59%	1.81%	2.98%	3.95%	4.76%	4.06%
	AVG	1.36%	6.48%	1.52%	3.38%	3.92%	4.78%	4.46%

The most relevant macroeconomic variable for the purposes of determining the ECL is GDP and, therefore, it is the representative variable that drives all the others: the average value over the three-year period 2024-2026 is 0.71%, 0.18% and 1.36% in the baseline, severe but plausible and best case scenarios, respectively.

Inclusion of government guarantees

The acquisition of these guarantees, also in consideration of what was declared by ESMA, does not impact the calculation of the SICR of credit exposures, as the latter is not connected to the guarantees, but to the creditworthiness that remains that specific to the counterparty, observing however for the purpose of measuring the expected loss to the extent that the guarantees are not subject to separate recognition in the Financial Statements and are considered an integral part of the contractual conditions governing the loans.

Already from 2021, a methodological refinement was introduced as part of the calculation of the collective impairment of exposures backed by a state guarantee, through the application of an LGD parameter that took into account the mitigations attributable to the government, introduced and expanded with the “Cura Italia” and “Liquidità” decrees, and in line with ESMA and EBA guidelines. In detail, the Expected Credit Losses were calculated using an LGD defined as a function of the probability of default (0.46%) and the recovery risk associated with Italy.



Management overlays

As at 31 December 2023, the existing management overlays are represented by 4 main categories, which led to higher value adjustments for a total of EUR 54 mln and higher exposures classified in stage 2 for approximately EUR 375.9 mln.

1. *Early Warning System (EWS)* – Starting from the third quarter of 2023, taking into account the macroeconomic context characterised by higher rates, the Group identified a cluster of exposures considered most exposed to potential financial difficulties. This portfolio, represented by corporate customers with a turnover of less than EUR 50 mln and by retail customers classified by the internal early warning system in the highest risk classes, was prudently reclassified to stage 2. The application of this correction resulted in higher provisions of EUR 1.2 mln and higher exposures in stage 2 of EUR 147.9 mln;
2. *C&E scenarios* - starting from the fourth quarter of 2023, the Group has included climate-environmental factors in its credit risk estimates by integrating into the baseline scenario adopted by the Group the macroeconomic indicators observed in the scenario provided by the external provider NGFS called “Net Zero 2050”. The latter, characterised by a proactive behavior of the economic system with respect to the energy transition, would entail a global economic contraction due to the huge costs incurred to achieve the goals of reducing emissions and combating climate change. The application of these adjustments to the baseline scenario, acting as a downward change on the GDP and Unemployment Rate variables compared to those used in the scenarios in production in 2023, would lead to higher provisions totalling EUR 38.1 mln;
3. *Floating-rate retail mortgages*: from the second quarter of 2023, in consideration of the ECB’s restrictive monetary policy, the Group recognised higher provisions on floating-rate retail mortgages through a sensitivity analysis carried out on the instalment-income ratio in a stress scenario in which further increases in rates double the instalment resulting in a decline in the aforementioned ratio and higher default flows. The application of this correction, which was partially resolved during the fourth quarter of 2023 following the above-mentioned restatement of the accounting PD, led to higher provisions of EUR 11.8 mln and a greater allocation in stage 2 of EUR 228 mln;
4. *Deterioration of the real estate market*: starting from the fourth quarter of 2023, taking into account the uncertainties arising from the refinancing risk that could significantly impact the real estate market, the Group has decided to use a *severe but plausible scenario* which was worse, in terms of real estate price index forecast, than the same scenario issued by the external provider. The application of these corrections has led to higher value adjustments for a total of EUR 2.7 mln.

The transitional nature of the aforementioned management overlays linked to the ability of models based on expected credit losses to detect emerging risk, remains in place, in addition to the consideration that the results deriving from these models are influenced by macroeconomic scenarios that are largely dependent on phenomena not fully settled and in any case subject to extreme variability and uncertainty.

Overall, the management overlays used for accounting valuations as at 31 December 2023 decreased by approximately EUR 154.7 mln compared to EUR 208.7 mln as at 30 September 2023. The significant decline and recomposition is attributable to: (i) the re-estimation of the LGD and PD models, which have made it possible to incorporate in the models the necessary reactivity with respect to some phenomena that had been managed until 30 September 2023 through management overlays and (ii) the application from 31 December 2023 of a correction to take into account the impact of climate-related factors on credit risk.

In particular, the model updates concerned:

- for the PD model, the risk differentiation in retail customers between fixed-rate and floating-rate mortgages and the use of 2023 data (instead of the previous two years 2021-2022) in the calibration of PDs to capture the increasing riskiness observed in the last months of 2023;
- for the LGD models, the reduction of the historical series used for calibration purposes, from the previous 20 years (1999-2019) to the current 17 years (2006-2022), in order to capture the reduction in the observed recovery flows also in light of the greater weight of transfers in the shorter series.

The set of re-estimates resulted in an increase in adjustment provisions of approximately EUR 205.8 mln, a level consistent with the conservative adjustments previously included in the valuations through dedicated management overlays: LGD backtesting, sector vulnerabilities and floating rate mortgages for a total of EUR 176.6 mln as at 30 September 2023.



The asymmetrical approach with respect to the use of multiple scenarios (with an impact in terms of higher adjustment provisions of EUR 31.3 mln until 30 September 2023), aimed at including in the calculation of the Group's ECL specific controls against the uncertainty still widespread in the markets, was removed given the greater conservatism of the baseline scenario used by the Group with respect to what is forecast by the main institutions (see the paragraph "Macroeconomic scenarios of the Group for the valuation of receivables in the 2023 financial statements" included in Part A – Section "A.2 - Part relating to the main items of the financial statements"), and the strongly negative component caused by the misalignment between the Net Zero 2050 scenario of the NGFS provider used as at 31 December 2023 for accounting valuations, compared to the aforementioned baseline scenario. In other words, the prudence inherent in the models in place together with the climate-environmental scenarios used through overlays for the purpose of determining the accounting ECLs, have made it possible, among other things, to "replace" the general conservative approach previously implemented through the use of asymmetric scenarios.

Lastly, a comparison with the figures as at 31 December 2022, when management overlays amounted to EUR 108.7 mln, shows a decrease of EUR 54.5 mln. This trend is mainly due to the elimination of the overlays resulting from: (i) the back testing analysis (EUR 22.4 mln as at 31 December 2022), (ii) the sector vulnerabilities of energy-intensive users (EUR 34.8 mln as at 31 December 2022) and (iii) the asymmetry of the scenarios (EUR 33.3 mln as at 31 December 2022), partially offset by the introduction as at 31 December 2023 of the climate-environmental scenarios.

Sensitivity analysis of expected losses

In accordance with the provisions of paragraphs 1 and 125 of IAS 1, the notes to the financial statements must provide information on the main factors of uncertainty that characterise the Financial Statements estimates. Paragraph 129 below provides that this disclosure must be provided in such a way as to allow the reader of the Financial Statements a clear understanding of the elements of judgement used by the management and all related impacts. Among the examples mentioned to pursue this objective are sensitivity analyses, through which the reader is able to appreciate the impacts on the Financial Statements estimates resulting from alternative calculation models, reasonably foreseeable changes in the inputs and assumptions underlying the estimates.

The Financial Statement values whose estimation process is characterised by the presence of significant factors of uncertainty certainly include the adjustment provisions for performing credit exposures (ECL).

As shown in "Part A - Accounting Policies", the determination of expected credit losses involves significant elements of judgement, with particular reference to the model used to measure losses and the related risk parameters, to the triggers deemed to express significant credit deterioration and the selection of macroeconomic scenarios.

In particular, the inclusion of forward-looking factors is a particularly complex exercise, as it requires macroeconomic forecasts to be formulated, scenarios and associated probabilities of occurrence to be selected, and a model to be defined capable of expressing the relationship between the aforementioned macroeconomic factors and the default rates of the exposures subject to valuation, as explained in the previous paragraph.

In order to assess how forward looking factors may influence expected losses, it is considered reasonable to carry out a sensitivity analysis in the context of different scenarios based on forecasts consistent with the evolution of the various macroeconomic factors. The innumerable interrelations between the individual macroeconomic factors are such as to render a sensitivity analysis of expected losses based on the individual macroeconomic factor of little significance.

The table below highlights the sensitivity for the main credit portfolios of the Group consisting of cash loans to customers, belonging to the corporate and retail segments of the 2 banks (Banca MPS and Widiba), which represent around 96% of the Group's total gross exposure, net of loans classified in the portfolio of non-current assets held for sale and disposal groups. The analysis shows, in line with the same approach adopted for 2022, the impact from each level of risk on gross exposures, on the adjustments and on the coverage ratio in the cases where a weight equal to 100% of the baseline, severe but plausible and best-case scenarios, respectively, is used instead of the scenario defined as weighted - i.e. based on weightings that the Group has attributed to each scenario⁴⁸ - used by the Group for estimating the stages of risk and value adjustments as at 31 December 2023.

⁴⁸ The weighted scenario was determined using a weighting of 26.3%, 52.6% and 21.1% for the Best, Baseline and Severe but plausible scenarios, respectively.



The weighted scenario used for the accounting valuations as at 31 December 2023 is, in terms of adversity, between *severe but plausible-case* and *best-case* scenarios. Specifically, for the performing exposures:

- the portfolio's sensitivity to the *severe but plausible-case* scenario would see (i) a shift of counterparties to stage 2, whose gross exposure would increase by EUR 1,242 mln (+11.91%), with a consequent increase in the 2023 ECL estimated at around 22.45% (around EUR 77.7 mln), and a higher average coverage of around 31 bps, (ii) a specular reduction of counterparties in stage 1, whose exposure would decrease by EUR 1,242 mln (-1.95%), an increase in the ECL of around 1.7% (around EUR 1.6 mln) with an average coverage that would remain substantially unchanged;
- the sensitivity of the portfolio to the baseline scenario would see (i) a decrease in counterparties in stage 2, whose exposure would decline slightly by about EUR 152.6 mln (-1.46%) with a consequent decrease in the 2023 estimated ECL at around 2.38% (about EUR 8.2 mln) and an average coverage that would remain substantially unchanged (-3 bps), (ii) a modest increase in terms of both exposures of around EUR 152.6 mln (+0.24%) and related ECL of around EUR 0.2 mln (+0.23%) for stage 1 with an unchanged average coverage;
- vice versa, the sensitivity analysis of the portfolio to the best-case scenario would see (i) a more marked reduction in the stock of stage 2 positions for EUR 973.9 mln (a reduction of 9.34%) with a potential economic benefit on the ECL 2023 of about EUR 66.5 mln (19.19%), and a consequent decrease in the coverage ratio of about 36 bps; (ii) an increase in stage 1 counterparties, whose exposure would increase by EUR 973.9 mln (an increase of 1.53%), a decrease in the ECL of about 4% (about EUR 3.85 mln) and a lower average coverage of 1 bps.

ECL estimate – Stage 3

With reference to the models used to determine expected losses on exposures classified as stage 3, i.e. non-performing exposures, please refer to the discussion in the section entitled “Methods for calculating impairment on IFRS 9 Financial Instruments” in Part “A.2 - Part relating to the main items of the financial statements”.

As discussed in the paragraph “Use of estimates and assumptions when preparing Financial Statements” in “Part A - Accounting Policies”, the calculation of expected losses on non-performing loans involves significant elements of judgement, with particular reference to the estimate of flows deemed recoverable and the relative timing of recovery.

In further detail, as at 31 December 2023, expected losses on non-performing loans are determined analytically on the basis of recovery forecasts, either formulated by the manager or resulting from the application of statistical calculation methodologies, discounted on the basis of the original effective interest rates and the related recovery timeline.

The sensitivity analysis of adjustments of non-performing exposures would see an increase in the severe but plausible-case scenario for about EUR 28.6 mln (+1.85%) and a decrease of approximately EUR 0.4 mln (-0.03%) and EUR 34.7 mln (-2.25%) in the baseline and best-case scenarios, respectively.

However, it is not possible to rule out that a deterioration in the credit situation of debtors, also as a consequence of the possible negative effects on the economy related to the international geopolitical situation, may result in the recognition of additional losses, even significant, compared to those considered at 31 December 2023 based on the conditions existing at the reporting date.



	Weighting	Scenario (Delta in EUR/Mln)		
		Severe but plausible	Baseline	Best
STAGE 1 Gross exposure	63,569.8	(1,242.0)	152.6	974.0
of which CORPORATE	36,769.9	(942.8)	105.3	681.5
of which RETAIL	26,800.0	(299.2)	47.3	292.4
STAGE 1 Value Adjustments	95.3	1.6	0.2	(3.8)
of which CORPORATE	66.0	(0.4)	0.3	(1.4)
of which RETAIL	29.3	2.1	(0.0)	(2.5)
STAGE 1 coverage ratio (%)	0.15%	0.01%	0.00%	-0.01%
of which CORPORATE	0.18%	0.00%	0.00%	-0.01%
of which RETAIL	0.11%	0.01%	0.00%	-0.01%
STAGE 2 Gross exposure	10,426.6	1,242.0	(152.6)	(974.0)
of which CORPORATE	7,165.9	942.8	(105.3)	(681.5)
of which RETAIL	3,260.8	299.2	(47.3)	(292.4)
STAGE 2 Value Adjustments	346.3	77.8	(8.3)	(66.5)
of which CORPORATE	254.0	59.7	(6.3)	(49.3)
of which RETAIL	92.3	18.1	(1.9)	(17.1)
STAGE 2 coverage ratio (%)	3.32%	0.31%	-0.03%	-0.36%
of which CORPORATE	3.55%	0.32%	-0.04%	-0.39%
of which RETAIL	2.83%	0.27%	-0.02%	-0.30%
STAGE 3 Gross exposure	3,335.9	-	-	-
of which CORPORATE	2,471.7	-	-	-
of which RETAIL	864.2	-	-	-
STAGE 3 Value Adjustments	1,544.9	28.6	(0.4)	(34.7)
of which CORPORATE	1,259.1	14.8	(0.2)	(18.0)
of which RETAIL	285.8	13.8	(0.2)	(16.7)
STAGE 3 coverage ratio (%)	46.31%	0.86%	-0.01%	-1.04%
of which CORPORATE	50.94%	0.60%	-0.01%	-0.73%
of which RETAIL	33.07%	1.60%	-0.03%	-1.93%
TOTALE Value Adjustments	1,986.5	108.0	(8.4)	(105.0)
of which CORPORATE	1,579.1	74.0	(6.2)	(68.7)
of which RETAIL	407.4	33.9	(2.2)	(36.3)



2.4 Credit risk mitigation techniques

Mitigation techniques are an important tool to reduce or transfer part of the credit risk associated with the exposure portfolio. In line with its low risk appetite, which characterises its operations, the Group pursues the mitigation of credit risk through the acquisition of guarantees, collateral or unsecured, and certain contracts that determine a reduction in credit risk.

The valuation of such mitigating factors is carried out by associating an LGD with each individual exposure, which assumes higher values in the case of ordinary unsecured loans and decreases, on the other hand, depending on the incremental strength of any mitigating factors that may be present.

With regard to collateral guarantees, the cash and security pledge deposited with the Parent Company and the mortgages on real estate represent essentially the entire nominal amount of the collateral guarantees acquired and all of them ensure compliance with the regulatory/legal/organisational requirements of the Supervisory Provisions for the application of credit risk mitigation rules. The Group has developed one single process for the acquisition of collaterals which is at the same time a working instrument and the expression of the Group's management policies. The management of collaterals is activated after loan disbursement is approved and its process is organised into a number of different stages:

- acquisition (including multiple acquisition): the controls of (formal and amount) consistency with the guarantees proposed during the authorisation phase are performed in this stage;
- adjustment/change/amendment: useful to amend the characteristics of a guarantee without interrupting loan protection;
- query: gives information about the present data and the historical trend of guarantees received;
- repayment/cancellation.

If the measures for monitoring collaterals on loans show operational irregularities during the acquisition phase or any inadequacies/losses of the values received as collateral, events falling within the scope of credit monitoring policies are put in place, which trigger operational obligations of credit risk assessment.

In particular, mortgage collateral is mainly related to loans for mortgages granted to retail customers, which constitutes a portfolio cluster with a high level of diversification.

Mortgage guarantees are managed through an IT platform integrated within the Parent Company's systems which is used to automatically transfer information about the property acquired from appraisers directly to those systems. The platform automatically updates all of the Parent Company's loan management applications and digitally archives the appraiser's documentation. It is also capable of standardising the set of information provided.

Appraisers are selected based on an individual analysis of their abilities, professional skills and experience, and are placed on a dedicated list of accredited professionals; their work is monitored continuously, including by checking any divergence between surveyed values and benchmark market data. The appraisers must prepare their estimates according to valuation methods consistent with the Guidelines for banks on non-performing loans (NPLs).

For the phase of monitoring the assets pledged, the Group has a policy establishing the amounts of the secured exposure and the age of the appraisal, beyond which the properties are appraised again. For exposures lower than the thresholds defined, the Group in any event conducts half-yearly monitoring of the property value based on market data.

In addition, in order to ensure the eligibility of guarantees within the Credit Risk Mitigation process, a specific function within the Credit function activates re-assessment processes in cases where the materiality thresholds are exceeded, processes that are consistent with the policy guidelines, with particular reference to the criteria of age of the appraisal, exposure values, loan to value, and deviations from geo-referenced valuations.

The disbursement of loans secured by collaterals is subject to specific control measures, differentiated by type of guarantee pledged, which are applied during the phase of disbursement and monitoring.

The general requirements for ensuring the legal certainty and enforceability of guarantees are verified by checking compliance with the following relevant conditions:

- binding nature of the legal obligation entered into by the parties and enforceability in the event of legal proceedings;
- documented evidence and enforceability of the instrument against third parties in all relevant jurisdictions for the purpose of its exercise and execution;
- timely liquidation in case of non-fulfilment;
- compliance with organisational requirements.



With reference to compliance with organisational requirements, mitigation of risk is ensured by:

- the presence of an IT system in support of the life cycle phases of the guarantees (acquisition, valuation, management, re-valuation and enforcement);
- the existence of regulated policies for the management of guarantees (principles, practices, processes), available to all users.

Another important risk mitigation tool that complies with prudential regulations on Credit Risk Mitigation is represented by personal guarantees issued by Government Organisations such as Sace, Fondo Centrale, Ismea and Consap, which, especially thanks to the adoption of the Temporary Framework on Government Aid aimed at managing the impacts on the economy and the stability of the financial system generated first by the Covid-19 pandemic emergency and then by the Russian-Ukrainian conflict, now represent a significant share in terms of coverage compared to the Group's total loans.

In addition, the Group uses other protection instruments that can be summarised in the following categories: (i) Sureties (including omnibus sureties and personal guarantees given by third parties); (ii) endorsement; (iii) surety policy; (iv) credit mandate; (v) strong/binding letter of *patronage*; (vi) blank bills; (vii) independent warranty agreement; (viii) debt delegation; (ix) expromission; (x) takeover; (xi) personal guarantees under foreign law; (xii) credit derivatives: *credit default swaps*; *total return swaps*; *credit linked notes*.

The main lenders are: (i) sovereign states and central banks; (ii) public sector entities and local authorities; (iii) multilateral development banks; (iv) supervised intermediaries; (v) guarantee institutions (Confidi); (vi) companies and individuals.

Nearly all personal guarantees, net of government guarantees, are traceable to companies and individuals as guarantors. Only to a limited portion of these customers can an internal rating be assigned, since these guarantors are not borrowers of Group companies.

The presence of collateral or personal guarantees is reflected, as mentioned above, in the quantification of ECLs of the Financial Statements. With regard to collective valuations, the main “transmission” channel is the LGD, one of the input parameters used for valuations: for this purpose, each exposure is divided into tranches, determined according to the different types of collateral that back the exposure and a specific LGD is calculated for each tranche.

With regard to analytical valuations, the presence and updating of the value of collateral is directly reflected in the case of a gone concern valuation approach, applied, beyond certain thresholds, to all bad loans as well as on unlikely to pay loans where a going-concern scenario is excluded or where the partiality and lack of reliability of the company's business plans do not allow for a plausible estimate of the company's ability to honouring the debt through the cash flows generated by the business activity (going-concern method). In the gone concern approach, specific haircuts are applied, calculated within time series of the Group which contain the results of contracts awarded in foreclosure proceedings.

The system of controls set up to monitor impairment processes guarantees the substantial absence of cases relating to financial instruments for which no provision has been made to cover losses due to the collateral.

As regards the mitigation of counterparty risk for OTC (unregulated) derivatives and SFT (Securities Financing Transactions or security lending and repurchase agreements), the Group uses bilateral netting agreements that allow, in the event of counterparty default, the offsetting of credit and debit positions. This is done through the signing of ISDA (*International Swap Derivatives Association*) and ISMA/PSA (*International Securities Market Association/Public Securities Association*) type agreements, which also allow, in compliance with supervisory regulations, the reduction of regulatory capital absorption. In addition, the Group has collateral agreements in place, mainly with daily margin setting, to hedge its transactions in OTC derivatives (Credit Support Annex), also due to the obligation to margin set derivatives that cannot be centrally offset, as required by EMIR regulations; for SFTs, the Bank has daily margining agreements (GMRA - Global Master Repurchase Agreements and GMSLA - Global Master Securities Lending Agreements).

Finally, as at 31 December 2023, there are two synthetic securitisation transactions finalised by the Group in July 2021 with a view to optimising capital absorption, called “Siena 2021-RegCap-1” and “Siena 2021” - RegCap - Specialised Lending”. For details of the transactions, please see Section C. Securitisation Transactions in this chapter.

Significant risk transfer (SRT) to investors was achieved for afore-mentioned transactions through the acquisition by a third-party investor of a financial guarantee in the form of a term deposit pledge.



3. Non-performing loans

3.1 Management strategies and policies

The classification of non-performing exposures into the different risk categories (e.g. bad loans, unlikely to pay and non-performing past due exposures; collectively, non-performing exposures), is carried out in accordance with EBA regulations, supplemented by internal provisions that establish criteria and automatic rules for the transfer of loans within the different risk categories. In particular, classification is carried out by bodies within the loan decision-making chain based on a process that provides for a series of codified controls aiming to guarantee proper asset classification, except for loans more than 90 days past due and/or overdrawn, which are measured using automated procedures. To activate the controls, default detection parameters have been integrated within the Group's business procedures (Credit Monitoring) so as to subject the most critical positions to assessment, including for any reclassification if required.

The Group has procedural mechanisms in place for the automatic default classification of counterparties with overdrawn forbore exposures on which the binding classification parameter always applies. Additional parameters for automatic classification as unlikely to pay have also been activated for exposures backed by government guarantees and affected by the initiation of the overrun risk event exceeding 90 days, in order to make the guarantee activation process and the start of the subsequent enforcement process even more timely, since almost all of the aforementioned guarantees are of the 'first demand' type.

The process of overseeing exposures with public guarantees was strengthened through the establishment of task forces dedicated to the process of enforcing guarantees, in particular those relating to Art. 13, paragraph 1 of the Liquidity Law Decree.

In addition, specific monitoring was carried out to supervise compliance with the deadlines by which the necessary fulfilment of the obligations necessary for the reporting of risk events and the activation of state and consortia guarantees.

Again on the subject of guarantees, starting from the fourth quarter of 2023, the Group has launched a comprehensive assessment on the completeness of the documents relating to the guarantees acquired during the Covid-19 pandemic emergency, prioritising activities on the highest risk classes and foreseeing the simultaneous activation of remediation actions to rectify any document deficiencies found within the dedicated application.

Within the context of the default detection processes, the extensive activity carried out by the credit decision-making branches concerning the verification, by means of specific tests on prospective cash flows backing debt, of the positions affected by credit deterioration triggers on the financial statements ratios, is also relevant; the portfolio analysed concerned EUR 4.3 bn on almost 8.5 thousand counterparties and resulted in a default classification rate of about 4%.

The 2023 credit strategies, in order to contain the flow of defaults, included the adoption of a selective approach on corporate customers with a high internal risk profile and operating in critical sectors, aimed mainly at deleveraging, except for the residual recourse to measures to support investments with the acquisition of collateral. In the case of consumer customers, the strategy is based on the findings of the Early Warning System (EWS) scores. In this regard, additional scoring criteria, that have been implemented starting from early 2024, consider in the calculation of the actual disposable income of obligors, co-obligors and other household members, including the subsistence income, understood as the amount of money to be used to meet basic needs and which inevitably cannot be considered among the sources of debt repayment.

The Group's procedures also manage the phases for transfer to non-performing categories, in particular forbore positions. A "forborne exposure" (as defined in Bank of Italy Circular 272) is a debt agreement for which measures of tolerance have been applied (otherwise identifiable as "forbearance measures"). The measures of tolerance consist of concessions - in terms of the amendment and/or refinancing of the pre-existing debt agreement - to the debtor who has or is on the verge of having difficulty in meeting its financial commitments (in other words, the debtor is in financial difficulty).

Forborne exposures are broken down into:

- "non-performing exposures with forbearance measures", pursuant to the Implementing Technical Standards (ITS) issued by the EBA. These exposures represent a sub-category of, depending on the case, bad loans, unlikely to pay or non-performing past due exposures; therefore, they do not make up their own category of non-performing exposures;
- "forborne performing exposures", pursuant to the ITS.

If a new credit facility or a change in a credit line which amounts to a forbearance is requested, the manager, supported by the appropriate procedure, must assess the presence as well as the financial difficulty of the



counterparty. If the financial difficulty is deemed to be serious, with a presumption of severity when the forbearance measure results in a reduction in the value of the financial obligation of more than 1%, the manager should decide, in addition to the forbearance, also on the change in the counterparty's classification from performing to unlikely-to-pay position.

Positions are classified into the various categories of non-performing assets at the proposal of the regional network responsible for the commercial relationship as well as peripheral and central specialised functions responsible for loan control and management.

For non-performing past due loans, classification as non-performing takes place via automatic procedures if specific objective conditions of default have been satisfied, with particular reference to overdrawn days.

Non-performing exposures are returned to performing status at the initiative of the above-mentioned structures responsible for loan control and management, after it is verified that the critical conditions and state of insolvency during the "cure" period no longer apply; for positions affected by moratorium measures with total suspension of the instalment, the "cure" period starts from the date of expiry of the suspension period, and the repayment of the instalments – both principal and interest, due in the 12 months following the end of the suspension – is required for the return to performing status.

With regard to non-performing past-due loans, the "cure" applies automatically once the exposure has been repaid and after the elapse of an observation period of 90 days during which the credit relationship must not be affected by risk events such as further overdrawn situations or the occurrence of default detection parameters.

The active management of outstanding receivables begins at the first signs of non-performance, supported by the Credit Monitoring procedure, which, within the Ordinary Management scope, first identifies non-performing positions (Pre-screening and Screening phase) and subsequently routes them to dedicated management processes (Routing phase). More specifically:

Pre-screening phase: Customer Care in Outsourcing

Retail and small business positions within certain amount and overdrawn threshold limits, which are more than 5 days overdue, are steered into an outsourced recovery process (soft phone collection) in order to resolve the payment anomaly and to prevent the interception of the counterparty within the Risk List.

Screening phase: identification of high insolvency risk positions

Ordinary risk positions that present a deterioration in risk indicators such as, but not limited to, the EWS performance risk indicator above certain thresholds, default detection parameters application, the presence of continuous overdrawn situations up to a maximum tolerance threshold of 20 days (7 days for forborne relationships), are intercepted weekly by means of a special engine within the Risk List in order to be promptly routed to management processes created ad hoc to track the riskiest positions (Routing).

Routing phase: differentiated treatment of positions based on customer type

This choice was based on the need for differentiating, even during the management approach phase, the processes by customer segment, in accordance with the customer service models, which envisage that a *Corporate* customer cannot be treated in the same way as a *retail* customer and that specific client management needs should be met with "ad hoc" processes. Ordinary-risk positions, reported as higher risk by the 'screening' engine, are routed to specific processing queues depending on the type of customer and credit facility involved:

1. "Mass Retail" procedure, dedicated to Retail clients for which it is possible to activate mass debt collection;
2. "Standard Retail" procedure, dedicated to the remaining Retail customers with more limited exposures and small-sized businesses with limited exposure;
3. a dedicated Corporate procedure for corporate customers.

As regards assessment, bad loans and unlikely to pay positions with a gross exposure exceeding a given threshold value (EUR 1 mln) are valued analytically. For all remaining non-performing exposures, the valuation is carried out statistically on the basis of parameters determined by Risk Management.

The evaluation is carried out at the time of their classification, when significant events take place, such as the shift of the counterparty towards another decision-making chain and, in any event, reviewed periodically. In particular, the loan valuation is subject to review any time knowledge is gained of significant events that could change prospects for recovery. For such events to be promptly taken into consideration, all debtor and guarantor information is periodically monitored.

In 2023, the achievement of the annual objectives of both ordinary destocking (payments, balances and write-offs, partial payments), and return to performing status, in addition to the contribution of a block transfer transaction



of approximately EUR 0.2 bn, made it possible to maintain the Gross NPE ratio at around 4%, albeit in a context of uncertainty because of the macroeconomic scenario due to geopolitical tensions and the increase in financing costs, which negatively impacted the trends of loans granted to companies and individuals.

The NPE *Strategy* calls for a strong *commitment in 2024, in continuity with 2023*, on portfolio management, through constant monitoring of compliance with the management strategies in order to accelerate returns, through out of court settlements, or alternatively through a timely operating reallocation toward enforcing collateral.

In order to comply with the objectives of the Gross NPE Ratio plan, the 2024 non-performing strategies envisage the activation of competitive processes for the disposal on the market of various clusters of non-performing credit portfolios, selected after in-depth analyses on the transferability characteristics of the various counterparties.

The “cure” objectives set out in the 2024 Credit Strategies were set through the identification of the portion of the NPE portfolio with the expiring “cure period”, in order to subject it to systematic monitoring to ensure compliance with a return to performing requirements, such as the timely processing of parameters that would stop the observation period.

3.2 Write-offs

With regard to non-performing loans, the Group resorts to the write-off/cancellation - in whole or in part - of uncollectable accounting items and consequently allocates to losses the residual amount not yet adjusted in the following cases:

- as a result of a voluntary waiver, when one freely assesses the financial standing of a debtor and decides to write-off part of the exposure to that debtor due to a verified uncollectability; or
- when it is deemed that the gross value is no longer recoverable in whole or in part: such an assessment does not imply the waiver of the debt nor does it affect recovery actions but it is an acknowledgement that at least part of the debt is not recoverable.

The assumptions underlying an unrealistic assessment of recoverability, in relation to which it is considered appropriate to abandon interruption of the limitation period, occur when the composition, bankruptcy, enforcement and even inheritance procedures have come to an end, together with the absence of co-obligors or guarantors to be enforced, as well as in cases of documentary verification of impossible and/or infeasible recovery from debtors/guarantors and, lastly, upon conclusion of out-of-court settlements.

The control process aimed at identifying the lack of realistic recovery prospects focuses on the counterparties with a given coverage level as well as a certain vintage.

Finally, it should be noted that the Group has decided to carry out total/partial write-offs, at least for bad loans with seniority (understood as a period of permanence in the status of “non-performance” of more than three years) and an impairment level of more than 95%.

At the reporting date, the total exposures subject to write-offs relating to counterparties for which enforcement procedures (insolvency and/or executive) are still in progress is approximately EUR 37 mln.

3.3 Purchased or originated impaired financial assets

The purchased or originated financial assets (POCI) include financial instruments, acquired or originated, which were already credit impaired at their initial recognition, that is, they showed some signs of impairment in credit quality.

The accounting rules relating to POCIs apply to financial instruments measured at amortised cost or at fair value through other comprehensive income; that is, SPPI-compliant financial instruments in the HTC and HTC&S Business Models. For further details on the accounting treatment of this type of financial asset, refer to the paragraph “Purchased or originated credit-impaired financial assets” (POCI)” in the Notes to the Financial Statements - Part A - “Accounting policies”.

The Group includes the following cases as POCI financial assets:

1. substantial changes to the loans (other than those that result in failure of the SPPI test), agreed with non-performing customers, to which derecognition accounting is applied, in accordance with accounting policy;
2. new credit facility to a non-performing counterparty;
3. acquisition of a portfolio of non-performing loans as part of business combinations;
4. purchase of individual financial instruments.



In particular, the first two refer to “Originated credit-impaired financial assets (OCI)” and the others to “Purchased credit-impaired financial assets (PCI)”.

Originated credit-impaired financial assets are identified as part of the lending procedure. Specifically, the PEF application used by the Credit function was appropriately supplemented for certain specific purposes of the credit facility: their selection and the presence of a non-performing status for the counterparty result in an “OCI flag” being raised on a single loan line. This reporting is passed on to summary systems for the necessary measurements, both for amortised cost as well as impairment.

For purchased non-performing loans, the event is processed by the respective business functions and reported through appropriate reporting systems to management.

The credit risk measurement, management, and control systems for these financial assets envisage, firstly, the definition of the estimated plan, that is, the contractual plan adjusted for expected credit losses. The latter is prepared on the basis of the forecasts and may be subject to revision during the life of the credit transaction. This plan is used to calculate CEIR (credit-adjusted effective interest rate), that is, the rate that equates the present value of expected cash flows to the fair value at initial recognition in financial statements.

Based on the contractual plan, the operational services are also calculated including:

- outstandings on the estimated plan, by comparing contractual outstandings and the cash flows effectively expected by the estimated plan (these outstandings are, in fact, a component used in the impairment calculation for POCI instruments);
- adjustments to CEIR that allow contractual interest due, recorded by the various operational services, to be applied to the effective interest at the CEIR calculated in the estimated plan.

Credit risk is monitored on a monthly basis: information on contractual outstandings and outstandings on estimated cash flows are summarised in a report used by the various functions for the resulting measurements.

At the reporting date of these consolidated financial statements, the POCI portfolio of the Group was fully classified under financial assets at amortised cost, amounting to a gross book value of approximately EUR 4.8 mln (EUR 4.4 mln as at 31 December 2022), of which EUR 3.2 mln represented by repurchases of positions already transferred to bad loans (PCI), while EUR 1.6 mln represented contractual changes which, although declared substantial, did not affect the original characteristics of the credit relationship (OCI).



4. Financial assets subject to commercial renegotiations and exposures subject to forbearance

Financial assets subject to commercial renegotiations

This category includes renegotiations of credit exposures - by changing the original contractual conditions - granted by the Group for commercial reasons to performing customers, with the objective of maintaining the relationship with the customer. The changes in question are divided into the two categories set out below, depending on the purposes and effects of the amended contracts agreed between the parties:

1. transactions that entail a change in the original payment schedule (re-scheduling), to the benefit of the debtor;
2. transactions that do not entail a change in the original payment schedule and that seek to adjust the debt burden to market conditions. These transactions result in a change in the original contract conditions, usually at the customer's request, that reference aspects associated with the debt burden.

Requests to reschedule the loan entail, in any event, the assessment of whether the customer is experiencing financial difficulties - in line with the preliminary review process for the loan - which is carried out based on predominantly objective assumptions to avoid errors in assigning the forbore classification and is also governed from a subjective/qualitative perspective by specific Group guidelines.

The Group's processes do not envisage massive initiatives aimed at renegotiation, but one-to-one evaluation approaches for the requests received, always managing the latter with a view to retention. This phenomenon is primarily attributable to the residential mortgages sector, using qualitative/quantitative metrics (based both on the risk-adjusted profitability and the market benchmark, or the level of pricing expressed by the banking system), appropriately associated with commercial valuations, such as the expected benefits deriving from maintaining or achieving the reference status with the individual customer.

Forborne exposures

Forbearance measures are activated, both on the retail as well as corporate segment, when a financial criticality emerges that may impact the counterparty's capacity to satisfy their financial commitments in relation to debt repayment.

To determine the sustainable forbearance measure, it is essential to verify the impacts of financial difficulty compared to debt: the forbearance measure is only implemented if the aforementioned impacts are deemed as being possible to overcome through use of said forbearance measure.

The degree of financial difficulty in which the customer finds themselves (serious or not) must be identified in order to determine the measure (suspension of payments or mere rescheduling of debt) and to allow the measure to be credibly aimed at solving the customer's difficulty.

To reach this objective in the corporate world, an analysis of historic data is not sufficient. Forecast and medium to long-term strategy information on the company must also be obtained; at the individual level, it is essential to assess the instalment/income ratio, the employment situation and the future commitments of the household net of the subsistence income.

The relationship managers use a special simulation tool in order to define the measure or set of measures that make it possible to obtain a new sustainable repayment plan for the customer, in consideration of parameters such as the residual duration of the loan, the age of the debtor, the type of rate.

More generally, the use of the forbearance measure follows a tailor-made logic in order to reformulate the plan in a way that is sustainable in terms of debt repayment, favouring as much as possible contractual modification options that commit the customers to making payments already in the short term, as opposed to altogether debt moratorium measures.

To this end, the Group has developed a specific product portfolio that provides for legal acts of recognition, rescheduling and amortisation of debt, both for retail and corporate customers, differentiating the offer according to the type of secured/unsecured loans being measured, the duration of rescheduling and the Loan-to-Value of mortgage loans. These products also envisage that the rate used in forbearance does not exceed the original contractual rate.

The trend in 2023 of the stock of forbore performing exposures (probation period) shows a reduction in the portfolio in question of approximately EUR 720 mln (-37.0% compared to the previous year); this decrease is



mainly due to an increase in the rate of return among fully performing exposures, equal to 42.0% in 2023 (23.0% in 2022).

As regards the stock of non-performing forborne exposures, there was a slight increase in the latter (+ 7% compared to the previous year) mainly due to an increase in the incidence of new forbearance measures towards fully performing counterparties on which a state of serious financial difficulty was recorded, which made the transition to non-performing status mandatory (EUR 233.1 mln compared to EUR 89.7 mln as at 31 December 2022), and ii) an increase in the default rate of exposures classified as forborne performing at the beginning of the year (+ 9% compared to 6.3% in 2022). This increase was partly offset by an improvement in destocking ratios such as a “cure” rate of 10% (8.5% as at 31 December 2022) and ii) a recovery rate of 18% (15% as at 31 December 2022).

The amount of gross outstanding credit exposures to customers (non-performing and performing) subject to concessions is set out in Table A.1.7-bis below, in the Quantitative Information - A. Credit Quality section, to which reference should be made for further details. With regard to the impact, in the process of assessing the SICR and measuring expected losses, please refer to Section 2.3 “Methods for measuring expected losses” of the previous Section.

With specific reference to impairment, note that all forborne exposures other than non-performing are classified in stage 2 and are valued, similarly to the exposures in stage 3, for an amount equal to the expected losses throughout the life of the loan. Any decrease in credit risk and the resulting classification in stage 1 and measurement of impairment for an amount equal to expected credit losses in the subsequent 12 months, is linked, in the absence of further indicators of significant increases in the risk of credit, to the return to the fully performing status of the exposure or to the loss of the forborne classification.



Quantitative Information

A. Credit quality

A.1 Non-performing and performing loans: amounts, value adjustments, trend and breakdown by business sector

A.1.1 Prudential consolidation - Breakdown of financial assets by past due ranges (book values)

Portfolio/staging	Stage 1			Stage 2			Stage 3			Purchased or originated credit impaired		
	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	Up to 30 days	from 30 to 90 days	Over 90 days
1. Financial assets measured at amortised cost	90,748	-	-	258,538	94,839	37,374	79,017	155,097	896,948	48	-	1,339
2. Financial assets measured at fair value through other comprehensive income	-	-	-	-	-	-	-	-	-	-	-	-
3. Financial assets held for sale	-	-	-	-	-	-	-	-	-	-	-	-
Total 31 12 2023	90,748	-	-	258,538	94,839	37,374	79,017	155,097	896,948	48	-	1,339
Total 31 12 2022	152,118	-	-	157,383	59,067	13,798	67,562	104,081	825,660	179	-	457



A.1.2 Prudential consolidation – Financial assets, commitments to disburse funds and financial guarantees given: changes in overall value adjustments and total allocations

Reasons/Staging	Overall value adjustments											
	Assets included in Stage 1						Assets included in Stage 2					
	Loans to bank and Central banks	Financial assets measured at amortised cost	Financial assets measured at fair value through other comprehensive income	Financial assets held for sale and disposal groups	<i>Of which: specific write-downs</i>	<i>Of which: portfolio adjustments</i>	Loans to bank and Central banks	Financial assets measured at amortised cost	Financial assets measured at fair value through other comprehensive income	Financial assets held for sale and disposal groups	<i>Of which: specific write-downs</i>	<i>Of which: portfolio adjustments</i>
Overall value adjustments, opening balance	98	96,159	3,256	-	-	99,514	24	353,978	461	-	-	354,463
Increase in purchased or originated financial assets	-	15,437	-	-	-	15,437	-	12,538	-	-	-	12,538
Derecognition different from write-off	(2)	(6,070)	(972)	-	-	(7,044)	-	(12,252)	-	-	-	(12,252)
Net losses (recoveries) on impairment	(8)	(101,679)	(375)	-	-	(102,062)	-	100,798	(164)	-	-	100,634
Modification gains/losses	-	(5)	-	-	-	(5)	-	(89)	-	-	-	(89)
Change in evaluation methodology	-	-	-	-	-	-	-	-	-	-	-	-
Write-off not recognised directly in the income statements	-	(1)	-	-	-	(1)	-	(23)	-	-	-	(23)
Others	-	109,740	(10)	-	-	109,730	(24)	(82,062)	(36)	-	-	(82,122)
Overall value adjustments, closing balance	88	113,581	1,899	-	-	115,569	-	372,888	261	-	-	373,149
Recoveries from collections of financial assets subject to write-off	-	-	-	-	-	-	-	-	-	-	-	-
Write-off recognised through income statements	-	-	-	-	-	-	-	(494)	-	-	-	(494)



	Overall Value Adjustments										Provisions for credit risk relative to commitments to disburse funds and financial guarantees given					Total
	Assets included in stage 3					Purchased or originated credit impaired financial assets					Stage 1	Stage 2	Stage 3	Purchased or originated impaired commitments to disburse fund and financial guarantees given		
	Loans to bank and Central banks	Financial assets measured at amortised cost	Financial assets measured at fair value through other comprehensive income	Financial assets held for sale and disposal groups	Of which: specific write-downs	Of which: portfolio adjustments	Financial assets measured at amortised cost	Financial assets measured at fair value through other comprehensive income	Financial assets held for sale and disposal groups	Of which: specific write-downs					Of which: portfolio adjustments	
Overall value adjustments, opening balance	-	1,576,975	-	-	772,574	804,401	2,185	-	-	1,398	786	14,331	14,739	102,200	7,653	2,172,059
Increase in purchased or originated financial assets	-	1,777	-	-	1,777	-	X	X	X	X	X	829	547	859	-	31,987
Derecognition different from write-off	-	(301,954)	-	-	(143,555)	(158,399)	-	-	-	-	-	(4,739)	(750)	(6,200)	(132)	(333,071)
Net losses (recoveries) on impairment	175	505,153	-	-	167,412	337,916	(27)	-	-	-	(27)	(377)	5,316	20,110	(115)	528,807
Modification gains/losses	-	(325)	-	-	(73)	(252)	(92)	-	-	69	(161)	-	-	-	-	(511)
Change in evaluation methodology	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Write-off not recognised directly in the income statements	-	(52,193)	-	-	(24,268)	(27,924)	(5)	-	-	-	(5)	-	-	-	-	(52,222)
Others	24	(26,363)	-	-	(14,317)	(12,022)	-	-	-	-	-	7,250	(3,627)	(3,620)	-	1,272
Overall value adjustments, closing balance	199	1,703,070	-	-	759,550	943,720	2,061	-	-	1,467	593	17,294	16,225	113,349	7,406	2,348,321
Recoveries from collections of financial assets subject to write-off	-	4,375	-	-	4,375	-	1,668	-	-	1,668	-	-	-	-	-	6,043
Write-off recognised through income statements	-	(29,397)	-	-	(28,855)	(542)	-	-	-	-	-	-	-	-	-	(29,891)

During the 2023 financial year, total impairment provisions posted an overall increase, compared with 1 January 2023, of around EUR 176.3 mln, due almost entirely to value adjustments of financial assets carried at amortised cost, classified in stage 3 (EUR +126,1 mln). In particular, with reference to this accounting portfolio, the following elements contributed to this trend in the line:

- “Derecognition different from write-offs” a reduction in provisions for a total of EUR 320.3 mln, mainly attributable to the deconsolidation of the positions included in the “Mugello” transaction and certain single-name disposals;
- “Write-offs not recognised directly in the income statement” a reduction in provisions for non-performing loans for a total of EUR 52.2 mln. Note that the derecognitions not covered by the provision generated an impact of EUR 29.4 mln in the income statement;
- “Net losses (recoveries) on impairment”, a net increase in provisions of EUR 504.3 mln, of which EUR 505.2 mln referred to stage 3. The main factors that affected this latter performance include inter alia the other adjustments related to the disposal of non-performing loans carried out during the year, to management overlays and to the update of the IFRS 9 PD and LGD models in line with the evolution of the regulatory models which was based on the 2024 Model Change. In this regard, reference is made for further details to paragraph “2.3 Methods to measure expected losses” of the Notes to the consolidated financial statements.



A.1.3 Prudential consolidation – Financial assets, commitments to disburse funds and financial guarantees given: transfers among the different stages of credit risk (gross and nominal values)

Portfolio/Staging	Gross value / nominal value					
	Transfers between Stage 1 and Stage 2		Transfers between Stage 2 and Stage 3		Transfers between Stage 1 and Stage 3	
	From Stage 1 to Stage 2	From Stage 2 to Stage 1	From Stage 2 to Stage 3	From Stage 3 to Stage 2	From Stage 1 to Stage 3	From Stage 3 to Stage 1
1. Financial assets measured at amortised cost	4,780,588	4,273,166	619,684	172,587	405,107	8,775
2. Financial assets measured at fair value through other comprehensive income	-	-	-	-	-	-
3. Financial assets held for sale	-	-	-	-	-	-
4. Commitments to disburse funds and financial guarantees given	971,523	669,937	70,882	21,127	51,841	6,241
Total 31 12 2023	5,752,111	4,943,103	690,566	193,714	456,948	15,016
Total 31 12 2022	5,456,669	4,633,997	561,517	151,924	283,601	67,951



A.1.4 Prudential consolidation – Balance sheet and off-balance sheet credit exposures to banks: net and gross values

31 12 2023

Type of exposure/value	Gross exposures					Impairment (losses) and total provisions					Net Exposure	Total Partial Write-off*
	Total gross exposure	Stage 1	Stage 2	Stage 3	Purchased or originated credit impaired	Total impairment (losses) and total provisions	Stage 1	Stage 2	Stage 3	Purchased or originated credit impaired		
A. Balance-sheet exposure												
A.1 On Demand												
a) Non-Performing	357	X	-	357	-	199	X	-	199	-	158	-
b) Performing	13,608,987	13,608,987	-	X	-	88	88	-	X	-	13,608,899	-
A.2 Others												
a) Bad loans	-	X	-	-	-	-	X	-	-	-	-	-
- of which forborne	-	X	-	-	-	-	X	-	-	-	-	-
b) Unlikely to pay	819	X	-	819	-	421	X	-	421	-	398	-
- of which forborne	-	X	-	-	-	-	X	-	-	-	-	-
c) Past-due non-performing exposures	-	X	-	-	-	-	X	-	-	-	-	-
- of which forborne	-	X	-	-	-	-	X	-	-	-	-	-
d) Past-due performing exposures	13,059	2,446	10,613	X	-	19	-	19	X	-	13,040	-
- of which forborne	-	-	-	X	-	-	-	-	X	-	-	-
e) Other assets not impaired	4,389,106	4,204,328	3,612	X	-	937	762	175	X	-	4,388,169	-
- of which forborne	-	-	-	X	-	-	-	-	X	-	-	-
Total A	18,012,328	17,815,761	14,225	1,176	-	1,664	850	194	620	-	18,010,664	-
B. Off-balance-sheet exposure												
a) Non-performing	-	X	-	-	-	-	X	-	-	-	-	-
b) Performing	2,860,865	1,696,949	-	X	-	352	352	-	X	-	2,860,513	-
Total B	2,860,865	1,696,949	-	-	-	352	352	-	-	-	2,860,513	-
Total (A+B)	20,873,193	19,512,710	14,225	1,176	-	2,016	1,202	194	620	-	20,871,177	-

* 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.1.5 Prudential consolidation – Balance sheet and off-balance sheet credit exposure to customers: net and gross values

31 12 2023

Type of exposure/value	Gross exposures					Impairment (losses) and total provisions					Net Exposure	Total Partial Write-off*
	Total gross exposure	Stage 1	Stage 2	Stage 3	Purchased or originated credit impaired	Total impairment (losses) and total provisions	Stage 1	Stage 2	Stage 3	Purchased or originated credit impaired		
A. Balance-sheet exposure												
a) Bad loans	1,404,772	X	-	1,379,891	3,227	960,293	X	-	939,557	1,955	444,479	3,174
- of which forborne	249,698	X	-	249,657	2	156,177	X	-	156,152	2	93,521	2,116
b) Unlikely to pay	1,971,181	X	-	1,961,676	527	741,296	X	-	734,676	105	1,229,885	25,999
- of which forborne	941,021	X	-	934,733	527	325,398	X	-	321,422	105	615,623	12,361
c) Past due non-performing exposures	131,109	X	-	130,896	-	28,445	X	-	28,415	-	102,664	87
- of which forborne	10,274	X	-	10,245	-	2,562	X	-	2,559	-	7,712	-
d) Past-due performing exposures	531,616	88,979	402,264	X	-	22,485	443	22,042	X	-	509,131	274
- of which forborne	46,459	-	46,459	X	-	2,090	-	2,090	X	-	44,369	-
e) Other assets not impaired	90,379,313	77,175,873	9,621,860	X	1,051	465,190	114,276	350,913	X	1	89,914,123	3,393
- of which forborne	1,167,510	-	1,149,379	X	-	66,051	-	66,051	X	-	1,101,459	1,304
Total A	94,417,991	77,264,852	10,024,124	3,472,463	4,805	2,217,709	114,719	372,955	1,702,648	2,061	92,200,282	32,927
B. Off-balance-sheet exposure	-	-	-	-	-	-	-	-	-	-	-	-
a) Non-performing	565,498	X	-	556,801	8,696	120,755	X	-	113,349	7,406	444,743	-
b) Performing	42,588,096	35,858,889	1,274,323	X	29	42,318	16,942	16,226	X	-	42,545,778	-
Total B	43,153,594	35,858,889	1,274,323	556,801	8,725	163,073	16,942	16,226	113,349	7,406	42,990,521	-
Total (A+B)	137,571,585	113,123,741	11,298,447	4,029,264	13,530	2,380,782	131,661	389,181	1,815,997	9,467	135,190,803	32,927

* Value to be presented for disclosure purposes

Please see the Report on Operations for quantification of and reporting on capital ratios for hedging of lending relationships.

For detailed information on originated impaired financial assets, reference should be made to paragraph 3.3 “Purchased or originated impaired financial assets”, section 1 “Credit risk - Qualitative information” in these Notes to the financial statements.

As at 31 December 2023, the Bank held purchased impaired loans for a nominal value of EUR 29.4 mln; the loans were classified in the portfolio “Financial assets measured at amortised cost” at the purchase price of EUR 2.3 mln, appropriately adjusted in order to align the net book value to the initial recognition fair value.



A.1.6 Prudential consolidation - Balance-sheet credit exposures to banks: changes in gross non-performing exposures

31 12 2023

Source/Categories	Bad loans	Unlikely to pay	Non-performing Past due
A. Gross exposure, opening balance	-	-	-
- of which: transferred but not derecognised	-	-	-
B. Increases	-	1,185	-
B.1 Transfers from performing loans	-	1,185	-
B.2 Transfers from purchased or originated credit impaired financial assets	-	-	-
B.3 Transfers from other non-performing loans	-	-	-
B.4 Modification gains/losses	-	-	-
B.3 Other increases	-	-	-
C. Decreases	-	8	-
C.1 transfers to performing loans	-	-	-
C.2 write-offs	-	-	-
C.3 collections	-	8	-
C.4 amounts realised upon disposal of positions	-	-	-
C.5 Losses from disposal	-	-	-
C.6 transfers to other categories of non-performing exposures	-	-	-
C.7 Modification gains/losses	-	-	-
C.8 other decreases	-	-	-
D. Gross exposure, closing balance	-	1,177	-
- of which: transferred but not derecognised	-	-	-

At the reporting date, there are no impaired financial assets purchased during the financial year through either business combination transactions or other types of acquisitions.

A.1.6-bis Prudential consolidation – Balance-sheet credit exposures to banks: changes in gross forborne exposures broken down by credit quality

This table was not completed as the Group did not hold forborne exposures to banks either in the current year or in the previous year.



A.1.7 Prudential consolidation - Balance-sheet credit exposures to customers: changes in gross non-performing exposures

31 12 2023

Source/Categories	Bad loans	Unlikely to pay	Non-performing Past due
A. Gross exposure, opening balance	1,311,082	1,961,779	45,776
- of which: transferred but not derecognised	59,258	10,626	338
B. Increases	477,172	1,094,243	144,234
B.1 Transfers from performing loans	79,286	909,277	126,591
B.2 Transfers from purchased or originated credit impaired financial assets	2,868	6	-
B.3 Transfers from other non-performing loans	325,952	16,446	1,247
B.4 Modification gains/losses	-	1,035	7
B.5 other increases	69,066	167,479	16,389
C. Decreases	383,482	1,084,841	58,901
C.1 transfers to performing loans	315	184,706	5,826
C.2 write-offs	41,271	46,202	1,031
C.3 collections	74,863	481,079	31,678
C.4 amounts realised upon disposal of positions	57,464	4,302	-
C.5 Losses from disposal	837	501	-
C.6 transfers to other categories of non-performing exposures	1,827	323,993	17,826
C.7 Modification gains/losses	-	5,816	1
C.8 other decreases	206,905	38,242	2,539
D. Gross exposure, closing balance	1,404,772	1,971,181	131,109
- of which: transferred but not derecognised	-	-	-

The line item Other decreases amounting to a total of EUR 247.7 mln, is attributable for EUR 204.4 mln to non-performing exposures subject to disposal, of which EUR 168.9 mln is classified as bad loans and EUR 35.5 mln as unlikely to pay.

With reference to bad loans, 15% of total payments received are from judicial collections, 39% from out-of-court settlements, 23% from property leasing sales, and 23% from enforcement of consortium guarantees (prior to first demand); in addition, around EUR 48 mln relating to collections from disposal.

At the reporting date, there are no impaired financial assets that were purchased during the financial year through business combination transactions.



A.1.7-bis Prudential consolidation – Balance-sheet credit exposures to customers: changes in gross forborne exposures broken down by credit quality

31 12 2023

Source/Categories	Non performing forborne exposures	Performing forborne exposures
A. Goss exposure, opening balance	1,126,192	1,934,062
- of which: transferred but not derecognised	25,450	10,301
B. Increases	526,204	687,524
B.1 Transfers from performing loans	233,105	480,321
B.2 Transfers from performing forborne exposures	174,238	X
B.3 Transfers from Non-performing forborne exposures	X	110,926
B.4 Other increases	32,396	15,254
C. Decreases	451,404	1,407,617
C.1 Transfers to performing loans	X	808,054
C.2 Transfers to performing forborne exposures	110,926	X
C.3 Transfers to non-performing forborne exposures	X	174,238
C.4 Write-offs	22,589	61
C.5 Collections	204,719	366,596
C.6 Amounts realised upon disposal of positions	20,083	-
C.7 Losses from disposal	501	-
C.8 Other decreases	92,586	58,668
D. Gross exposure, closing balance	1,200,992	1,213,969
- of which: transferred but not derecognised	-	-



A.1.8 Prudential consolidation - Non-performing balance-sheet credit exposures to banks: changes in overall value adjustments

31.12.2023

Source/Categories	Bad loans		Unlikely to pay		Non-performing Past due	
	Total	of which forborne	Total	of which forborne	Total	of which forborne
A. Opening balance of overall adjustments	-	-	-	-	-	-
- of which: transferred but not derecognised	-	-	-	-	-	-
B. Increases	-	-	620	-	-	-
B.1 Value adjustments of purchased or originated impaired financial assets	-	X	-	X	-	X
B.2 Other value adjustments	-	-	593	-	-	-
B.3 Loss from disposal	-	-	-	-	-	-
B.4 Transfers from other categories of non-performing exposures	-	-	-	-	-	-
B.5 Modification gains/losses	-	-	-	-	-	-
B.6 Other increases	-	-	27	-	-	-
C. Decreases	-	-	-	-	-	-
C.1 Write-backs from valuation	-	-	-	-	-	-
C.2 Write-backs from collection	-	-	-	-	-	-
C.3 Profit from disposal	-	-	-	-	-	-
C.4 Write-offs	-	-	-	-	-	-
C.5 Transfers to other categories of non-performing exposure	-	-	-	-	-	-
C.6 Modification gains/losses	-	-	-	-	-	-
C.7 Other decreases	-	-	-	-	-	-
D. Closing balance of overall adjustments	-	-	620	-	-	-
- of which: transferred but not derecognised	-	-	-	-	-	-

At the reporting date, there are no impaired financial assets purchased during the financial year through either business combination transactions or other types of acquisitions.



A.1.9 Prudential consolidation - Non-performing balance-sheet credit exposures to customers: changes in overall value adjustments

31 12 2023

Source/Categories	Bad loans		Unlikely to pay		Non-performing Past due	
	Total	of which forborne	Total	of which forborne	Total	of which forborne
A. Opening balance of overall adjustments	859,899	126,574	736,231	318,871	10,397	505
- of which: transferred but not derecognised	53,962	10,335	9,387	3,437	421	-
B. Increases	388,497	99,258	408,412	164,127	27,302	2,557
B.1 Value adjustments of purchased or originated impaired financial assets	1,776	X	1	X	-	X
B.2 Other value adjustments	265,777	62,396	377,097	141,714	24,135	1,857
B.3 Loss from disposal	10	-	501	501	-	-
B.4 Transfers from other categories of non-performing exposures	118,504	34,476	4,587	1,238	247	6
B.5 Modification gains/losses	-	X	55	X	-	X
B.6 Other increases	2,430	2,386	26,171	20,674	2,920	694
C. Decreases	288,103	69,655	403,347	157,600	9,254	500
C.1 Write-backs from valuation	55,432	9,741	68,071	28,840	1,942	32
C.2 Write-backs from collection	18,429	5,761	125,836	48,647	1,138	100
C.3 Profit from disposal	9	-	351	-	-	-
C.4 Write-offs	41,271	8,292	46,202	14,296	1,008	-
C.5 Transfers to other categories of non-performing exposure	1,144	958	117,861	34,405	4,332	356
C.6 Modification gains/losses	-	X	419	X	-	X
C.7 Other decreases	171,818	44,903	44,607	31,412	834	12
D. Closing balance of overall adjustments	960,293	156,177	741,296	325,398	28,445	2,562
- of which: transferred but not derecognised	-	-	-	-	-	-

The line item Other decreases, amounting to a total of EUR 217.3 mln, is attributable for EUR 204.4 mln to non-performing exposures subject to disposal, of which EUR 168.9 mln is classified as bad loans and EUR 35.5 mln as unlikely to pay.

At the reporting date, there are no impaired financial assets that were purchased during the financial year through business combination transactions.

Exposure to sovereign debt risk

Below are the net sovereign credit risk exposures in government bonds, loans and credit derivatives held by the Group as at 31 December 2023, pursuant to the criteria of the European Securities and Markets Authority (ESMA). The exposure is broken down by accounting categories. For securities classified as “Financial assets measured at amortised cost” and “Loans”, the book value (amortised cost) is also reported.

COUNTRY	DEBT SECURITIES					LOANS	CREDIT DERIVATIVES
	Financial assets measured at fair value through profit or loss		Financial assets measured at fair value through other comprehensive income		Financial assets measured at amortised cost	Financial assets measured at amortised cost	Financial assets held for trading
	Nominal	Fair value=book value	Nominal	Fair value=book value	Book value	Book value	Nominal
Argentina	0.5	-	-	-	-	-	-
Belgium	-	-	8.0	3.6	-	-	-
France	-	-	15.0	12.0	10.9	-	-
Italy	1,632.8	1,336.7	1,746.5	1,624.6	7,533.4	1,706.0	2,325.6
Mexico	0.1	0.1	15.0	11.8	-	-	-
Perù	-	-	2.0	1.6	-	-	-
Portugal	0.3	0.2	24.6	16.8	3.0	-	-
Romania	-	-	30.0	24.9	-	-	-
Spain	2.7	2.5	-	-	1,171.7	-	-
United States	-	-	45.2	37.2	-	-	-
Sud Africa	-	-	5.0	5.1	-	-	-
Other Countries	-	0.1	-	0.1	-	-	-
Total 31 12 2023	1,636.4	1,339.6	1,891.3	1,737.7	8,719.0	1,706.0	2,325.6
Total 31 12 2022	1,049.9	812.2	3,770.9	3,508.0	7,478.6	1,625.9	3,283.1

Details on the Group’s exposure is presented taking into consideration that, according to instructions from the European Securities and Markets Authority (ESMA), “sovereign debt” is defined as bonds issued by central and local Governments and by government Entities, as well as loans disbursed to aforementioned entities.

These financial instruments were measured according to the standards applicable to the category to which they belong.

As at 31 December 2023, the residual duration of the exposure to the most significant component of sovereign debt (Italian debt securities) was 7.02 years. The overall exposure to loans and debt securities amounted to EUR 13.502,3 mln, almost entirely in Italian debt, and is concentrated in the portfolio of financial assets measured at amortised cost. Exposures to Italy are almost entirely classified in level 1 of the fair value hierarchy, less EUR 576.9 mln classified in level 2 and mainly attributable to government securities.



Following are the details of reserves on securities measured at fair value through other comprehensive income and of Italian credit derivatives (in EUR/mln):

Securities measured at fair value through other comprehensive income: Italy	31 12 2023	31 12 2022
Book value	1,624.6	3,385.2
O.C.I reserve (after tax)	(39.8)	(100.3)
of which: hedging effect (after tax)	(20.1)	(11.7)

Credit derivatives - Italy	31 12 2023	31 12 2022
Purchase of protection		
Nominal	(79.5)	(150.0)
Positive fair value	-	-
Negative fair value	(5.5)	(7.2)
Sale of protection	-	-
Nominal	2,405.1	3,433.1
Positive fair value	-	3.6
Negative fair value	(85.9)	(138.7)



A.2 Classification of exposure by external and internal ratings

A.2.1 Prudential consolidation – Breakdown of financial assets, commitments to disburse funds and financial guarantees given by external rating class (gross values)

31 12 2023

Exposures	External class rating						No rating	Total
	class 1	class 2	class 3	class 4	class 5	class 6		
A. Financial assets measured at amortised cost	685,929	1,125,555	9,938,725	577,267	129,139	35,212	80,244,188	92,736,015
- Stage 1	685,929	1,114,942	9,937,570	503,592	107,496	1,810	66,882,887	79,234,226
- Stage 2	-	10,613	1,155	73,505	2,292	4,397	9,931,741	10,023,703
- Stage 3	-	-	-	170	19,351	29,005	3,424,755	3,473,281
- Purchased or originated impaired financial assets	-	-	-	-	-	-	4,805	4,805
B. Financial assets measured at fair value through other comprehensive income	55,862	13,241	2,062,431	110,985	9,522	-	3	2,252,044
- Stage 1	55,862	13,241	2,062,431	105,862	-	-	3	2,237,399
- Stage 2	-	-	-	5,123	9,522	-	-	14,645
- Stage 3	-	-	-	-	-	-	-	-
- Purchased or originated impaired financial assets	-	-	-	-	-	-	-	-
C. Financial assets held for sale	-	-	-	-	-	-	-	-
- Stage 1	-	-	-	-	-	-	-	-
- Stage 2	-	-	-	-	-	-	-	-
- Stage 3	-	-	-	-	-	-	-	-
- Purchased or originated impaired financial assets	-	-	-	-	-	-	-	-
Total (A+B+C)	741,791	1,138,796	12,001,156	688,252	138,661	35,212	80,244,191	94,988,059
D. Commitments to disburse funds and financial guarantees given	136,664	511,692	1,284,466	765,272	577,125	18,564	36,101,904	39,395,687
- Stage 1	136,664	511,692	1,282,241	765,272	575,830	18,564	34,265,575	37,555,838
- Stage 2	-	-	2,225	-	1,295	-	1,270,803	1,274,323
- Stage 3	-	-	-	-	-	-	556,801	556,801
- Purchased or originated impaired financial assets	-	-	-	-	-	-	8,725	8,725
Total (A+B+C+D)	878,455	1,650,488	13,285,622	1,453,524	715,786	53,776	116,346,095	134,383,746

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. On-balance-sheet exposures taken into account are those in Table A.1.2 "Breakdown of financial assets by portfolio and credit quality" above, while off-balance-sheet exposures are those in Tables A.1.4 (exposures to banks) and A.1.5 (exposures to customers). 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.



A.2.2 Prudential consolidation – Breakdown of financial assets, commitments to disburse funds and financial guarantees given per internal rating class (gross values)

31 12 2023

Esposizioni	Internal class rating						Group administrative default	No rating	Total
	High quality	Average quality	Fair quality	Mediocre quality	Poor quality	Default			
A. Financial assets measured at amortised cost	9,775,542	21,066,129	21,640,086	10,113,665	539,820	3,391,311	-	26,209,462	92,736,015
- Stage 1	9,716,783	20,721,853	19,048,824	4,447,622	2,210	5	-	25,296,929	79,234,226
- Stage 2	58,759	344,276	2,590,211	5,665,786	537,610	-	-	827,061	10,023,703
- Stage 3	-	-	-	257	-	3,387,552	-	85,472	3,473,281
- Purchased or originated impaired financial assets	-	-	1,051	-	-	3,754	-	-	4,805
B. Financial assets measured at fair value through other comprehensive income	-	4,304	6,134	-	-	-	-	2,241,606	2,252,044
- Stage 1	-	4,304	-	-	-	-	-	2,233,095	2,237,399
- Stage 2	-	-	6,134	-	-	-	-	8,511	14,645
- Stage 3	-	-	-	-	-	-	-	-	-
- Purchased or originated impaired financial assets	-	-	-	-	-	-	-	-	-
C. Financial assets held for sale	-	-	-	-	-	-	-	-	-
- Stage 1	-	-	-	-	-	-	-	-	-
- Stage 2	-	-	-	-	-	-	-	-	-
- Stage 3	-	-	-	-	-	-	-	-	-
- Purchased or originated impaired financial assets	-	-	-	-	-	-	-	-	-
Total (A+B+C)	9,775,542	21,070,433	21,646,220	10,113,665	539,820	3,391,311	-	28,451,068	94,988,059
D. Commitments to disburse funds and financial guarantees given	6,406,995	8,466,412	8,851,179	2,091,061	36,621	565,497	-	12,977,922	39,395,687
- Stage 1	6,382,646	8,343,482	8,461,563	1,395,353	11,028	-	-	12,961,766	37,555,838
- Stage 2	24,349	122,930	389,587	695,708	25,593	-	-	16,156	1,274,323
- Stage 3	-	-	-	-	-	556,801	-	-	556,801
- Purchased or originated impaired financial assets	-	-	29	-	-	8,696	-	-	8,725
Total (A+B+C+D)	16,182,537	29,536,845	30,497,399	12,204,726	576,441	3,956,808	-	41,428,990	134,383,746

High Quality customers (Master Scale categories AAA and A1) Good Quality customers (Master Scale categories A2, A3 and B1) Fair Quality customers (Master Scale categories B2, B3, C1 and C2) Mediocre Quality customers (Master Scale categories C3, D1, D2 and D3) Poor Quality customers (Master Scale categories E1, E2 and E3)

The table provides a breakdown of customers of the 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 Supervisory Authority without any cross-reference from official ratings to internal ratings, especially with regard to the following customer segments: "Banks," "Non-banking financial institutions," and "Governments and Public Administration". Thus, based on this provision, exposures related to the latter segments, even if covered by official ratings, were reported as "unrated" in the internal rating models.



A.3 Breakdown of secured credit exposures by type of collateral

A.3.1 Prudential consolidation – Balance sheet and off-balance sheet secured credit exposure to banks

31.12.2023

	Gross exposures	Net exposures	Collaterals				Personnel guarantees									Total collaterals and personnel guarantees
							Credit derivatives					Unsecured signature loans				
							Other derivatives					Public Entities	Banks	Other financial entities	Other entities	
			CLN	Central counterparties	Banks	Other financial entities	Other entities									
			Real estate mortgages	Real estate leasing	Securities	Other collaterals										
1. Secured balance-sheet exposures	1,039,563	1,039,549	861	-	1,027,848	-	-	-	-	-	-	-	-	-	24	1,028,733
1.1 Totally secured	1,031,462	1,031,448	861	-	1,027,848	-	-	-	-	-	-	-	-	-	-	1,028,709
- of which non-performing	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
1.2 Partially secured	8,101	8,101	-	-	-	-	-	-	-	-	-	-	-	-	24	24
- of which non-performing	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2. Secured off-balance sheet exposures	56,971	56,971	-	-	11,654	17,457	-	-	-	-	-	-	-	-	-	29,111
2.1 Totally secured	11,765	11,765	-	-	11,654	84	-	-	-	-	-	-	-	-	-	11,738
- of which non-performing	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2.2 Partially secured	45,206	45,206	-	-	-	17,373	-	-	-	-	-	-	-	-	-	17,373
- 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 either “totally secured” or “partially 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 reporting date is shown in the columns “Real guarantees” and “Personal guarantees” or, if such information is not available, the contractual value is reported. Please note that both values may not be higher than the book value of secured exposures, in line with the Bank of Italy Circular 262.



A.3.2 Prudential consolidation – Balance sheet and off-balance sheet secured credit exposure to customers

31.12.2023

31.12.2023																
	Gross exposures	Net exposures	Collaterals				Personnel guarantees								Total collaterals and personnel 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	64,694,781	63,002,087	36,908,149	1,966,936	6,650,879	1,470,839	-	-	-	-	-	6,785,696	5,113	538,526	6,643,357	60,969,495
1.1 Totally secured	57,525,967	55,960,138	36,883,205	1,966,936	6,519,673	1,403,525	-	-	-	-	-	3,755,446	4,670	446,635	4,726,835	55,706,925
- of which non-performing	2,575,719	1,377,239	870,319	140,229	7,720	26,693	-	-	-	-	-	179,679	-	18,123	126,282	1,369,045
1.2 Partially secured	7,168,814	7,041,949	24,944	-	131,206	67,314	-	-	-	-	-	3,030,250	443	91,891	1,916,522	5,262,570
- of which non-performing	313,505	215,650	21	-	8,563	1,665	-	-	-	-	-	116,041	-	3,559	59,664	189,513
2. Secured off-balance sheet exposures	16,323,581	16,286,721	293,219	68,358	8,708,473	603,588	-	-	-	-	-	291,344	1,025	659,342	5,019,304	15,644,653
2.1 Totally secured	14,773,891	14,740,955	289,667	66,919	8,627,234	568,174	-	-	-	-	-	158,224	1,025	623,347	4,281,825	14,616,415
- of which non-performing	101,330	77,343	3,261	246	1,675	1,860	-	-	-	-	-	1,213	-	4,465	64,623	77,343
2.2 Partially secured	1,549,690	1,545,766	3,552	1,439	81,239	35,414	-	-	-	-	-	133,120	-	35,995	737,479	1,028,238
- of which non-performing	75,098	72,333	-	-	161	476	-	-	-	-	-	928	-	240	62,289	64,094

In addition to balance-sheet exposures to customers, the table shows the amount of off-balance-sheet exposures, including derivative contracts with customers, 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 either “totally secured” or “partially 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 reporting date is shown in the columns “Real guarantees” and “Personal guarantees” or, if such information is not available, the contractual value is reported. Please note that both values may not be higher than the book value of secured exposures, in line with the Bank of Italy Circular 262.

A.4 Prudential consolidation – Financial and non-financial assets obtained through enforcement of guarantees received

	Derecognised credit exposure	Gross Value	Impairment (losses)	Book value	
					of which: obtained during the year
A. Tangible assets	46,078	50,708	24,791	25,917	-
A.1. Used in the business	-	-	-	-	-
A.2. Held for investments	45,320	50,071	24,307	25,764	-
A.3. Inventories	758	637	484	153	-
B. Equity instruments and Debt securities	50,665	24,259	(2,823)	27,082	-
C. Other assets	-	-	-	-	-
D. Non-current assets and group of assets held for sale	-	-	-	-	-
D.1. Property, plant and equipment	-	-	-	-	-
D.2. Other assets	-	-	-	-	-
Total 31 12 2023	96,743	74,967	21,968	52,999	-
Total 31 12 2022	125,233	98,816	41,575	57,241	12,151

The “Financial and non-financial assets obtained through enforcement of guarantees received” shown in the table above include assets:

- purchased in judicial auctions of Real Estate Owned Companies (REOCOs) consolidated for prudential purposes;
- resulting from non-redemption of assets in leasing and termination of non-performing finance lease agreements;
- resulting from *datio in solutum*.

As at 31 December 2023, the Group held financial instruments with a book value of EUR 27.1 mln (EUR 27.5 mln as at 31 December 2022), classified in the accounting portfolio of “Financial assets mandatorily measured at fair value”, which represent financial assets not previously granted by the debtor as collateral for pre-existing loans granted, but acquired as part of bilateral agreements with the latter, as a result of which the Group arranged for the derecognition of the related credit exposure.



B. Breakdown and concentration of credit exposures

B.1 Prudential consolidation - Breakdown of balance sheet and off-balance sheet credit exposures to customers by business segment

31 12
2023

Exposure/Counterparties	Public entities		Financial companies		Financial companies: of which insurance companies		Non-financial companies		Families	
	Net exposure	Total impairment (losses)	Net exposure	Total impairment (losses)	Net exposure	Total impairment (losses)	Net exposure	Total impairment (losses)	Net exposure	Total impairment (losses)
A. Balance sheet exposure										
A.1 Bad loans	331	939	3,957	22,085	-	-	317,056	716,326	123,135	220,943
- of which: forborne	-	-	137	145	-	-	61,617	103,975	31,767	52,057
A.2 Unlikely to pay	5,672	7,702	725	424	-	-	728,517	489,211	494,971	243,958
- of which: forborne	-	-	245	171	-	-	330,529	207,547	284,849	117,681
A.3 Past-due non-performing	968	753	118	72	-	-	27,641	8,967	73,937	18,653
- of which: forborne	-	-	-	-	-	-	3,421	1,602	4,291	960
A.4 Performing exposures	15,401,591	9,821	9,072,085	5,770	71,796	-	32,360,530	313,599	33,589,050	158,484
- of which: forborne	16,890	100	29,427	747	-	-	778,914	49,017	320,597	18,278
Total A	15,408,562	19,215	9,076,885	28,351	71,796	-	33,433,744	1,528,103	34,281,093	642,038
B. Off-balance-sheet exposures										
B.1 Non performing exposures	16	-	999	430	-	-	431,326	118,906	12,401	1,420
B.2 Performing exposures	4,399,150	23	11,041,228	274	53,217	-	25,122,294	37,801	1,982,566	4,220
Total B	4,399,166	23	11,042,227	704	53,217	-	25,553,620	156,707	1,994,967	5,640
Total (A+B) 31 12 2023	19,807,728	19,238	20,119,112	29,055	125,013	-	58,987,364	1,684,810	36,276,060	647,678
Total (A+B) 31 12 2022	20,906,757	20,839	12,085,231	33,661	97,378	-	59,617,617	1,649,978	37,667,693	501,813



B.2 Prudential consolidation - Breakdown of on- and off-balance-sheet exposures to customers by geographic area

Exposures/Geographic Areas	ITALY		OTHER EUROPEAN COUNTRIES		AMERICA		ASIA		REST OF THE WORLD	
	Net exposure	Total impairment (losses)	Net exposure	Total impairment (losses)	Net exposure	Total impairment (losses)	Net exposure	Total impairment (losses)	Net exposure	Total impairment (losses)
A. Balance sheet exposures										
A.1 Bad Loans	426,740	895,724	17,583	62,934	139	1,564	18	16	1	54
A.2 Unlikely to pay	1,222,983	732,654	5,736	7,157	489	369	643	1,063	33	52
A.3 Past due Non-performing exposures	95,361	27,607	7,203	795	1	2	-	-	99	42
A.4 Performing exposures	87,339,194	484,567	2,399,467	2,527	401,925	378	105,751	133	176,918	68
Total A	89,084,278	2,140,552	2,429,989	73,413	402,554	2,313	106,412	1,212	177,051	216
B. Off-balance-sheet exposures										
B.1 Non performing exposures	443,777	120,755	3	-	-	-	963	-	-	-
B.2 Performing exposures	40,801,251	41,521	1,501,648	793	173,407	3	48,530	-	20,403	1
Total B	41,245,028	162,276	1,501,651	793	173,407	3	49,493	-	20,403	1
Total (A+B) 31 12 2023	130,329,306	2,302,828	3,931,640	74,206	575,961	2,316	155,905	1,212	197,454	217
Totale (A+B) 31 12 2022	125,206,959	2,131,294	4,250,662	66,875	576,276	5,362	148,464	2,118	94,934	641

B.3 Banking Group - Breakdown of on- and off-balance-sheet exposures to banks by geographic area (book values)

Exposures/Geographic Areas	ITALY		OTHER EUROPEAN COUNTRIES		AMERICA		ASIA		REST OF THE WORLD	
	Net exposure	Total impairment (losses)	Net exposure	Total impairment (losses)	Net exposure	Total impairment (losses)	Net exposure	Total impairment (losses)	Net exposure	Total impairment (losses)
A. Balance sheet exposures										
A.1 Bad Loans	-	-	-	-	-	-	-	-	-	-
A.2 Unlikely to pay	-	-	556	620	-	-	-	-	-	-
A.3 Past due Non-performing exposures	-	-	-	-	-	-	-	-	-	-
A.4 Performing exposures	15,705,436	356	2,032,637	415	69,485	36	74,368	228	128,180	9
Total A	15,705,436	356	2,033,193	1,035	69,485	36	74,368	228	128,180	9
B. Off-balance-sheet exposures										
B.1 Non performing exposures	-	-	-	-	-	-	-	-	-	-
B.2 Performing exposures	1,160,272	57	803,804	136	219,595	24	519,978	36	152,826	99
Total B	1,160,272	57	803,804	136	219,595	24	519,978	36	152,826	99
Total (A+B) 31 12 2023	16,865,708	413	2,836,997	1,171	289,080	60	594,346	264	281,006	108
Totale (A+B) 31 12 2022	14,045,127	598	4,163,264	1,019	294,768	167	680,510	666	204,608	194



B.4 Large exposures

Item/Amount	31 12 2023	31 12 2022
a) Book value	85,843,375	61,280,844
b) Weighted value	1,975,437	1,762,133
c) Number	7	7

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 own funds.

The increase over the year for the “Book value” is mainly due to the positive change in transactions with eligible central counterparties, which are exempt from the calculation of the weighted value, as provided for in CRR, art. 400 (1) letter j); the increase in the “Weighted Value” referred to 2023, compared to 2022, is substantially attributable to the increase in transactions with banks.

C. Securitisation transactions

Qualitative Information

Structures, processes and goals

Law 130/99 “Provisions on the securitisation of receivables” (as amended) introduced in the Italian legal system the possibility of carrying out, through specifically established Italian companies, so-called SPV – Special Purpose Vehicle, securitisation transactions that allow to “transform” illiquid financial assets, capable of generating cash flows, such as loans, in tradable assets, i.e. in bonds called Asset Backed Securities (ABS).

Regulation (EU) 2017/2402 of the European Parliament and of the Council of 12 December 2017, has established a general framework for securitisation and a specific framework for simple, transparent and standardised securitisations.

The structure of a securitisation envisages the sale of the assets, recorded in the financial statements of a party (called Originator), to the Special Purpose Vehicle, which, to finance the purchase, issues bonds then placed on the market, paying the amount collected back to the transferor. The return and repayment of the securities issued are dependent on the cash flows generated by the assets sold.

With reference to securitisation transactions, the Montepaschi Group operates both as originator of own securitisations, and as investor, by underwriting third-party securitisation securities and as servicer of its own and third-party transactions. As at the reporting date of these financial statements, the Group has not promoted any securitisation activities as a sponsor.

In the context of own securitisations, a distinction can be made between:

- securitisation transactions placed entirely or in part on the market and originated with the aim of achieving economic benefits regarding the optimisation of the loan portfolio, the diversification of funding sources, the reduction of their cost and the matching of natural maturities for assets with those for liabilities (strictly speaking securitisations). In this context, the Group as at 31 december 2023, has two securitisation transactions with derecognition (*Norma SPV* and *Siena NPL 2018*) that substantially transfer all the risk and return of the portfolio transferred;
- securitisation transactions in which the originator subscribes at the time of issue, or later, the set of liabilities issued that are aimed at diversifying and strengthening the available funding instruments, through the transformation of the transferred loans into securities that can be refinanced (self-securitisations). These transactions are part of the more general policy of strengthening the Group’s liquidity position and are not included in the disclosure of this section but in the “Liquidity risk” section.

The execution of securitisation transactions, keeping with the organisational model established at Group level for the governance and management of risks, is governed by specific internal regulations.

The Parent Company’s Structural Liquidity Function defines the general conduct and coordinates activities for securitisation transactions; the management of the portfolio underlying these transactions is instead overseen by the Guarantee Management function.



In particular, for performing loan securitisations, the Guarantee Management function, within the *Credit Portfolio Governance* structure, is responsible for managing aspects and obligations associated with servicing activities and for monitoring the performance of existing transactions through monthly and quarterly reports on collections of residual principal, positions in arrears and disputed positions under said securitisation transactions. This same Function 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 note-holders to the relevant functions in the organisation.

For securitisations of non-performing loans, the servicing and debt collection performance control services are handled by market operators outside the Group.

Synthetic securitisation transactions

The main objective of a synthetic securitisation is to free up regulatory and economic capital by reducing the credit risk of the portfolio underlying the transaction (Significant Risk Transfer or SRT). In general, it is envisaged, through the stipulation of guarantee contracts, the purchase of protection of the credit risk underlying a loan portfolio, of which the Originator retains full ownership.

Synthetic securitisations are therefore aimed at transferring the credit risk from the originator to an external counterparty. This transfer does not entail the derecognition of assets and, therefore, assets remain in the originator's financial statements. The reference legislation for these transactions is Regulation (EU) 575/2013 (Capital Requirements Regulation, "CRR"); it establishes, in art. 245, the conditions under which the Significant Risk Transfer (SRT) criterion is met, i.e. the significant transfer of risk to third parties, for prudential purposes, through real or personal credit protection. In particular, the Significant Risk Transfer must be constantly monitored during the life of the transaction, in order to verify that the criteria envisaged by the regulations are respected.

Also in accordance with regulatory requirements (art. 405 CRR), the originator must retain a portion of the net economic interest equal to at least 5% of the nominal value of the securitised portfolio. This means – within the transaction structure chosen by the Group – that at least 5% of each securitised loan is considered unsecured.

The transaction is structured with a tranching (normally Junior-J, Mezzanine-M and Senior-S tranches) that is a function of the riskiness of the portfolio.

In December 2020, the Group has carried out two synthetic securitisation transactions named "Siena 2020-FEI transaction" and "Siena 2020-RegCap-1" and two synthetic securitisation transactions in July 2021, named "Siena 2021 - RegCap-1" and "Siena 2021 - RegCap-Specialised Lending". On 30 September 2023, the two transactions "Siena 2020-FEI transactions" and "Siena 2020-RegCap-1" were closed following the exercise of the Time Call option.



The following table shows the characteristics of the synthetic securitisation transactions carried out by the Group and outstanding as at 31 December 2023.

	Securitisation Siena2021-RegCap-1			Securitisation Siena 2021-Specialised Lending		
1. Transaction characteristics						
Type of operation	Synthetic securitisation			Synthetic securitisation		
Originator/Service/Arranger/Calculation agent	Banca Monte dei Paschi di Siena S.p.a.			MPS Capital Services Banca per le Imprese S.p.A.		
Purpose of the operation	Credit risk hedging			Credit risk hedging		
Guarantee Provider	Private Investor			Private Investor		
Type of securitised assets	Loans to Corporate and SMEs			Loans to Corporate		
Quality of securitised assets	performing			performing		
Closing date	23/07/21			23/07/21		
Portfolio nominal value	755,386,943.72			817,087,257.14		
Retention rate (%)	5% of securitised loans			5% of securitised loans net of two positions with retention greater than 5%		
Guarantees received	Guarantee in the form of pledge on a term deposit			Guarantee in the form of pledge on a term deposit		
Legal expiring date	31/12/2040			31/12/2036		
Early termination clauses	Regulatory Event, Time Call, Clean-up Call, Tax Event			Regulatory Event, Time Call, Clean-up Call, Tax Event		
Rating Agency	N.a.			N.a.		
2. Tranching value and conditions						
	Senior	Mezzanine	Junior	Senior	Mezzanine	Junior
- Guaranteed portfolio at the closing date	650,161,596.53	51,310,000.00	16,146,000.00	577,618,564.75	37,819,037.11	72,201,071.68
- % of the portfolio guaranteed	90.60%	7.15%	2.25%	84.00%	5.50%	10.50%
- Total guaranteed	-	51,310,000.00	-	-	22,887,538.06	43,594,553.09
- Not guaranteed portfolio at the reporting date	307,752,233.22	-	6,912,903.83	349,566,458.88		
Breakdown of the securitised asset by geographical area						
- North Italy	34.78%			64.87%		
- Center	34.85%			25.11%		
- South and Islands	30.37%			10.02%		
Total	100.00%	0.00%	0.00%	100.00%	0.00%	0.00%
Major clients of securitised portfolio						
- Corporate	13.81%			33.71%		
- SME	86.19%					
- OTHER				66.29%		
Total	100.00%	0.00%	0.00%	100.00%	0.00%	0.00%

As previously reported, the Significant Risk Transfer (SRT) is constantly monitored in order to verify that the CRR criteria regarding the actual transfer of credit risk are met. For the purposes of calculating capital requirements, as at 31 December 2023, the Group recognises significant risk transfer on both outstanding transactions.

the aforementioned transactions are monitored by the relevant functions; if critical issues or significant changes with respect to the forecasts are identified, information is provided to Top Management. In this regard, it should be noted that early termination clauses have been formalised in the contracts, such as “time call”, “clean up call” and others that may be applied in the event of significant changes in regulatory and/or legislative provisions.

Lastly, as regards the accounting treatment, it should be noted that the aforementioned transactions were classified as financial guarantees; please refer to paragraph “Other relevant accounting treatments – Synthetic securitisations” of Part A of these Notes to the consolidated financial statements.



Quantitative Information

C.1 Banking Group - Exposures arising from major own securitisation transactions broken down by type of securitised assets 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	
	Book value	Impairment (loss)/reversals	Book value	Impairment (loss)/reversals	Book value	Impairment (loss)/reversals	Net exposure	Impairment (loss)/reversals	Net exposure	Impairment (loss)/reversals	Net exposure	Impairment (loss)/reversals	Net exposure	Impairment (loss)/reversals	Net exposure	Impairment (loss)/reversals	Net exposure	Impairment (loss)/reversals
A. Fully derecognised	1,003,959	(316)	36,379	(1,878)	860	(3,688)	-	-	-	-	-	-	-	-	-	-	-	-
Non performing loans	1,003,959	(316)	36,379	(1,878)	585	(3,431)	-	-	-	-	-	-	-	-	-	-	-	-
Mortgage Loans	-	-	-	-	2	-	-	-	-	-	-	-	-	-	-	-	-	-
Shipping loans	-	-	-	-	273	(257)	-	-	-	-	-	-	-	-	-	-	-	-
B. Partially derecognised	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
c. Not derecognised	657,319	-	-	-	6,913	-	-	-	-	-	-	-	-	-	-	-	-	-
SME and Corporate Mortgages (synthetic securitisation)	657,319	-	-	-	6,913	-	-	-	-	-	-	-	-	-	-	-	-	-
Total	1,661,278	(316)	36,379	(1,878)	7,773	(3,688)	-	-	-	-	-	-	-	-	-	-	-	-
<i>Of which: non-performing</i>	1,003,959	(316)	36,379	(1,878)	860	(3,688)	-	-	-	-	-	-	-	-	-	-	-	-
<i>Of which: others</i>	657,319	-	-	-	6,913	-	-	-	-	-	-	-	-	-	-	-	-	-

In relation to securitisation transactions with own underlying assets, the table indicates balance sheet exposures, unsecured exposures, and other forms of credit enhancement.

The table above shows, for synthetic securitisations, the amount of risk retained in transactions not derecognised from the Financial Statements.

C.2 Prudential consolidation - Exposures arising from major 'third-party' securitisation transactions broken down by type of securitised asset and type of exposure

31 12 2023

Quality of underlying assets / exposures	Balance- sheet exposure						Guarantee issued						Lines of credit					
	Senior		Mezzanine		Junior		Senior		Mezzanine		Junior		Senior		Mezzanine		Junior	
	Book value	Impairment (loss)/reversals	Book value	Impairment (loss)/reversals	Book value	Impairment (loss)/reversals	Net exposure	Impairment (loss)/reversals	Net exposure	Impairment (loss)/reversals	Net exposure	Impairment (loss)/reversals	Net exposure	Impairment (loss)/reversals	Net exposure	Impairment (loss)/reversals	Net exposure	Impairment (loss)/reversals
Non-performing loans	14,971	(6,676)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Shipping loans	-	-	-	-	2	-	-	-	-	-	-	-	-	-	-	-	-	-
Commercial mortgages	13,383	(181)	12,327	(3,082)	-	-	-	-	-	-	-	-	-	-	-	-	-	-
First mortgages real estate loans	-	-	-	-	236	(222)	-	-	-	-	-	-	-	-	-	-	-	-
Total	28,354	(6,857)	12,327	(3,082)	238	(222)	-	-	-	-	-	-	-	-	-	-	-	-

The table provides the exposures taken by the Group for each third-party securitisation transaction as well as reporting the contractual type of assets sold. The column "Write-downs/write-backs" indicates the amount of any write-downs or write-backs during the year as well as depreciations and revaluations posted to the income statement or directly to equity reserves, in the case of securities in the portfolio "Financial assets measured at fair value through other comprehensive income".



C.3 Prudential consolidation - Stakes in securitisation special purpose vehicles

31 12 2023

Securitisation/Vehicle company name	Registered office	Consolidation	Assets			Liabilities		
			Credits	Debt securities	Others	Senio	Mezzanine	Junior
Belvedere SPV	Via Vittorio Betteloni 2, Milano	NO	266,110	-	118,191	219,301	70,000	95,000
Deco 2019 - Vivaldi S.r.l.	Via Vittorio Betteloni 2, Milano	NO	222,230	-	-	122,000	81,000	19,230
Futura 2019	Via San Prospero 4, Milano	NO	55,016	-	43,343	53,359	37,000	8,000
Pietra Nera Uno S.r.l.	Via V.Alfieri, 1 Conegliano (TV)	NO	383,330	-	-	199,350	164,796	19,185
Norma Spv S.r.l.	Via V.Alfieri, 1 Conegliano (TV)	NO	78	-	-	10	-	69
Siena Npl 2018 S.r.l.	Via Piemonte, 38 Roma	NO	2,420,790	-	31,356	994,954	892,192	565,000
Total			3,347,554	-	192,889	1,588,972	1,244,988	706,484

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 Prudential consolidation - Non-consolidated securitisation special purpose vehicles

The table shows the interests held by the Group in non-consolidated securitisation special purpose vehicles used for transactions in which the Group is an originator or investor; it also shows the assets, liabilities and any off-balance sheet exposures, non-revocable credit lines and financial guarantees (in the column “Difference between exposure to risk of loss and carrying amount”).

31 12 2023

Balance-sheet item/Type of structured entity	Accounting Portfolio Assets					Accounting Portfolio Liabilities					Maximum exposure to loss (D)	Difference between exposure to loss and book value (E=D-C)
	Financial assets held for trading	Financial assets mandatorily measured at fair value	Financial assets measured at fair value	Financial assets measured at fair value through other comprehensive income	Total assets (A)	Financial liabilities held for trading	Financial liabilities measured at amortised cost	Total liabilities (B)	Net book value (C=A-B)			
Own securitisations vehicle (Originator)	-	37,477	1,003,959	-	1,041,436	-	-	-	1,041,436	1,041,436	-	-
ABS issuing SPVs (Investor)	35,678	-	-	5,004	40,682	-	-	-	40,682	40,682	-	-
Total	35,678	37,477	1,003,959	5,004	1,082,118	-	-	-	1,082,118	1,082,118	-	-

It should be noted that the Group, in the role of investor holds interests in securitisation special purpose vehicles of the Italian banking system of performing and non-performing residential mortgages. The interests held by the Parent Company, as originator, relate to the following SPVs:

Norma SPV: on 1 July 2017, as part of a securitisation of non-performing loans also originated by banks outside the Group, Banca MPS and the former subsidiary MPS Capital Services completed the transfer of a portfolio of non-performing loans disbursed in the real estate and shipping sectors consisting of 19 loans for an amount of EUR 284.9 mln of which: (i) 12 loans disbursed by the Parent Company for an amount of EUR 24.0 mln in the real estate sector and EUR 145.3 mln in the shipping sector; and (ii) 7 loans disbursed by the former subsidiary MPS Capital Services for a value of EUR 28.8 mln in the real estate sector and EUR 86.8 mln in the shipping sector.

To fund the acquisition of this portfolio, on 21 July 2017 the SPV issued Class A1, B, C and D ABS securities (the “securities”) for the real estate sector and Class A1, B, C1, C2 and D ABS securities for the shipping sector. The senior classes of both sectors were placed with institutional investors, while the mezzanine and junior classes were subscribed by each transferring bank in proportion to the transferred loans. In particular, the MPS Group subscribed the following classes:

- *Real Estate:* Class B for a nominal amount of EUR 31.2 mln; Class C for a nominal amount of EUR 4.2 mln; Class D for a nominal amount of EUR 15.8 mln.
- *Shipping:* Class B for a nominal amount of EUR 75.5 mln; Class C1 for a nominal amount of EUR 32.7 mln; Class C2 for a nominal amount of EUR 10.4 mln; Class D for a nominal amount of EUR 105.6 mln.



As at 31 December 2023, the nominal amortised value of the classes subscribed by the MPS Group is as follows:

- Real Estate: EUR 10.63 mln; Class C EUR 4.21 mln; Class D EUR 15.83 mln (the book value is EUR 0.5 mln only attributable to Class B).
- Shipping: Class B EUR 28.4 mln; Class C1 EUR 34.0 mln; Class C2 EUR 10.8 mln; Class D EUR 109.8 mln (the book value, after redemption of Class B, is immaterial).

The changes in the Class B notes of both transactions are mainly attributable to payments made, in the face value and interest account, for a total of EUR 78.3 mln, of which EUR 20.6 mln relating to Real Estate and EUR 57.7 mln to Shipping (the nominal values of the notes of the shipping transaction are denominated in USD, therefore also including the exchange rate component).

Siena NPL 2018 S.r.l.: in 2017, the Group completed a securitisation transaction on a portfolio of bad loans. The portfolio was sold on 20 December 2017 to the special purpose vehicle Siena NPL 2018 S.r.l., established for this purpose. The SPV financed the purchase of the portfolio through the issue of asset-backed securities with limited recourse of the Senior A1, Senior A2, Mezzanine and Junior class, centralized in dematerialized form at Monte Titoli S.p.A. and initially not listed on any regulated market in Italy and/or abroad.

On 9 January 2018, the transfer of 95% of the Mezzanine notes to Quaestio Capital SGR on behalf of the Italian Recovery Fund (formerly Fondo Atlante II) 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. The securities issued by the special purpose vehicle following the restructuring are therefore the following:

- (i) Senior A notes for EUR 2,918 mln, initial rating A3/BBB+/BBB (Moody's/Scope Ratings/DBRS). The outstanding amount as at 31 December 2023 was around EUR 995 mln. The rating as at 31 December 2023 is Baa2/BBB/BB high (Moody's/Scope Ratings/DBRS);
- (ii) Mezzanine B notes for EUR 848 mln, without rating and sold to the Italian Recovery Fund, for a portion of 95% of the issue. The outstanding amount as at 31 December 2023, also due to the capitalisation of the interest (payment-in-kind), was about EUR 892 mln;
- (iii) Junior for EUR 565 mln, without rating and transferred to the Italian Recovery Fund, for a 95% share of the issue.

The transfer of 95% of the Mezzanine and Junior securities resulted in the deconsolidation of the entire securitised portfolio in June 2018. The remaining 5% of the Mezzanine and Junior notes was retained for the purpose of compliance with the "retention rule".

Lastly, in July 2018, the MEF granted, with a decree, the government guarantee (GACS) on the senior tranche of the securitisation. Obtainment of the GACS completed the entire securitisation process.

C.5 Prudential consolidation - Servicer activities - own securitisations: collections of securitised loans and redemptions of securities issued by the securitisation special purpose vehicle

As at 31 December 2023, the Group does not carry out servicer activities in its own securitisation transactions in which the assets sold have been derecognised in the Financial Statements pursuant to IFRS 9.

C.6 Prudential consolidation - Consolidated securitisation special purpose vehicles

Own securitisations without derecognition of the underlying assets

In the first half of 2023, the Group completed the early closure of the vehicle Siena Mortgages 10-7, the last "own" securitisation without derecognition, with the consequent repurchase of the residual portfolio. Consequently, as at the reporting date, the Group has no own securitisation transaction without derecognition of the underlying assets.



D. Transfers

A. Financial assets sold and not fully derecognised

Qualitative Information

As at 31 December 2023, the Group had no outstanding multi-originator transfers of loan portfolios to mutual funds with allocation of the relevant units to the transferor intermediaries that did not result in the derecognition of the transferred loans in accordance with IFRS 9.

At the same date, the transfer transactions that did not result in the derecognition from the financial statements of the underlying financial assets are represented by:

- securitisation transactions of credit exposures to customers, for which reference is made to the contents in section 4 “Liquidity risk” of these Notes to the financial statements;
- repurchase agreement payables on securities owned, mainly classified in the following portfolios: “Financial assets held for trading”, “Financial assets measured at fair value through other comprehensive income”, and “Financial assets measured at amortised cost”.

For repurchase agreements, the non-derecognition of the security, subject to spot transfer, derives from the fact that the Bank substantially retains all the risks and benefits associated with the security, having the obligation to repurchase it forward to a contractually established price. The securities transferred therefore continue to be represented in the accounting portfolios to which they belong; the consideration for the sale is recognised under “Financial liabilities measured at amortised cost: a) deposits from banks or b) deposits from customers”, depending on the type of counterparty. In this regard, it should be noted that the following tables do not show repurchase agreement payables carried out on securities not recognised in the financial statements, if their availability is a result of repurchase agreement receivables.

For securitisation transactions, described in the previous paragraph “C. Securitisation transactions” and in section 4 “Liquidity risk”, the non-derecognition is a result of the Group’s subscription of tranches of junior securities or similar exposures, which entail the risk of first losses for the Group and, likewise, the benefit associated with the return on the portfolio of transferred assets. In return for the transfer, the consideration received is recognised as a balancing entry to a liability due to the special purpose vehicle, net of any tranches of securities subscribed or any use of liquidity support in favour of the special purpose vehicle in order to make principal payments. The loan recognised in this way to the special purpose vehicle company will be reduced by the amounts collected by the originator, as “servicer”, and transferred to the same vehicle.



Quantitative Information

D.1 Prudential consolidation - Financial assets sold and fully recognised and associated financial liabilities: book values

	Financial assets sold and fully recognised				Associated financial liabilities		
	Book value	of which: subject to securitization transactions	of which: subject to repurchase agreement	of which: non-performing	Book value	of which: subject to securitization transactions	of which: subject to repurchase agreement
Financial assets held for trading	1,911,092	-	1,911,092	X	1,928,743	-	1,928,743
1. Debt securities	1,911,092	-	1,911,092	X	1,928,743	-	1,928,743
2. Equity instruments	-	-	-	X	-	-	-
3. Loans	-	-	-	X	-	-	-
4. Derivatives	-	-	-	X	-	-	-
Financial assets mandatorily measured at fair value	-	-	-	-	-	-	-
1. Debt securities	-	-	-	-	-	-	-
2. Equity instruments	-	-	-	X	-	-	-
3. Loans	-	-	-	-	-	-	-
Financial assets designated at fair value	-	-	-	-	-	-	-
1. Debt securities	-	-	-	-	-	-	-
2. Loans	-	-	-	-	-	-	-
Financial assets measured at fair value through other comprehensive income	277,463	-	277,463	-	270,210	-	270,210
1. Debt securities	277,463	-	277,463	-	270,210	-	270,210
2. Equity instruments	-	-	-	X	-	-	-
3. Loans	-	-	-	-	-	-	-
Financial assets measured at amortised cost	1,508,648	-	1,508,648	-	1,301,342	-	1,301,342
1. Debt securities	1,508,648	-	1,508,648	-	1,301,342	-	1,301,342
2. Loans	-	-	-	-	-	-	-
Total 31 12 2023	3,697,203	-	3,697,203	-	3,500,295	-	3,500,295
Total 31 12 2022	1,290,282	872,975	417,307	32,599	557,463	52,683	504,780

Following the closure of its own securitisation Siena Mortgages 10-7, which took place in the first half of 2023, the Group does not hold, as at 31 December 2023, financial assets transferred in full that are subject to securitisations.



D.2 Prudential consolidation - Financial assets sold and partially recognised and associated financial liabilities: book values

This table was not created as the Group did not have any financial assets sold and partially recognised in the current financial year or previous financial year.

D.3. Prudential consolidation - Transfers relating to financial liabilities with repayment exclusively based on assets sold and not fully derecognised: fair value

	Fully recognised	Partially recognised	Total	
			31 12 2023	31 12 2022
Financial assets held for trading	-	-	-	-
1. Debt securities	-	-	-	-
2. Equity instruments	-	-	-	-
3. Loans	-	-	-	-
4. Derivatives	-	-	-	-
Financial assets mandatorily measured at fair value	-	-	-	10
1. Debt securities	-	-	-	-
2. Equity instruments	-	-	-	-
3. Loans	-	-	-	10
Financial assets designated at fair value	-	-	-	-
1. Debt securities	-	-	-	-
2. Loans	-	-	-	-
Financial assets measured at fair value through other comprehensive income	-	-	-	-
1. Debt securities	-	-	-	-
2. Equity instruments	-	-	-	-
3. Loans	-	-	-	-
Financial assets measured at amortised cost	-	-	-	891,756
1. Debt securities	-	-	-	-
2. Loans	-	-	-	891,756
Total financial assets	-	-	-	891,766
Total financial associated liabilities	-	-	-	52,683
Net value 31 12 2023	-	-	-	X
Net value 31 12 2022	839,083	-	X	839,083

As at 31 December 2023, the Group does not hold any provisions of this type. The assets recognised as at 31 December 2022 referred to own securitisations without derecognition Siena Mortgages 10-7, and to the self-securitisation transactions Siena Lease 2016-2 and Siena Mortgages 09-6 Series 1, subject to early closure in the first half of 2023, with the simultaneous repurchase by the Bank of the residual portfolio.



B. Financial assets sold and fully derecognised with assessment of continuing involvement

Qualitative Information

Quantitative Information

None to report as at 31 December 2023.

C. Financial assets sold and fully derecognised

Following are multi-originator transfers, regarding loan portfolios, to a mutual investment fund with the attribution of the related units to the transferor intermediaries. The transactions outlined below led to the derecognition of the receivables sold pursuant to IFRS 9 (“derecognition”), as the Group did not substantially retain the risks and benefits of the transferred assets and also did not retain any substantial control over these assets, which were instead assumed by the fund management company (hereinafter also SGR). In particular, the risks and benefits that the Group could achieve from the units held in exchange for the contribution of receivables, are not anchored in the *an*, nor the *quantum* or the timing, to events affecting the assigned loans, given that the economic and financial trends related to individual receivables will not automatically and directly affect the returns of individual shareholders, which will instead depend on the general performance of the fund managed by the SGR.

Qualitative and quantitative Information

Efesto Fund

In November 2020, the MPS Group finalised a sale of a multi-originator type of a portfolio of loans classified as “unlikely to pay”, issued to industrial and service companies located in Italy and with an average turnover of EUR 20 mln in the last 3 years, to a Fund managed by Finanziaria Internazionale Investments S.G.R. S.p.A. The price settlement was determined by netting the loan owed by the Fund with the concurrent underwriting of freed up units of the Fund.

As at the sale date, the portfolio consisted of loans payable to the MPS Group and other banking groups by 51 target companies (for the MPS Group, 11 debtors) for a total gross exposure of EUR 432.5 mln (for the MPS Group, EUR 126.2 mln - of which 57% secured - for EUR 66.7 mln referring to the Parent Company and EUR 59.5 mln to the former subsidiary MPS Capital Services S.p.A.) at a total price of EUR 197.2 mln (for the MPS Group, about EUR 55.8 mln). The net book value of the loans as at the sale date for the MPS Group was EUR 53.3 mln.

As at 31 December 2020, the sold loans were fully derecognised from the assets in the financial statements of the Group, and units in the amount of EUR 50.9 mln, of which EUR 28.3 mln by the Parent Company and EUR 22.6 mln by the subsidiary MPS Capital Services S.p.A., were recognised, equal to an interest in the fund of approx. 28.3%.

As at 31 December 2023, the Group held 5.0% of the Fund’s units (12.0% as at 31 December 2022) for a book value of EUR 26.4 mln (EUR 32.9 mln as at 31 December 2022). The reduction in percentage equity investment is mainly due to new contributions made to the Fund by unit holders other than the Group.

Back2Bonis Fund

On 27 December 2019, the MPS Group, UBI Banca and Banco BPM finalised with AMCO and the Prelios Group a transaction named Cuvée which provided for the creation of a multioriginator platform to manage UTP (Unlikely to pay) loans, from EUR 3 mln to EUR 30 mln, issued to companies of the real estate sector that are in a restructuring phase or in financial difficulties.

In detail, the transaction consisted of the following steps:

- a) sale of all UTP loans by the banks to a securitisation company established pursuant to Italian Law no. 130/1999 (SPV 130), not a subsidiary of AMCO; with the disposal of the loans, each assignor bank acquired a credit from SPV 130 equal to the sale price;
- b) sale by the transferring banks to AMCO of the contractual relationships underlying the loans being sold to the SPV 130, which provide for residual commitments to disburse funds (case not applicable to the first phase for the MPS Group);
- c) contribution/sale to the Fund of the loan owed to the transferring banks by SPV 130 for the transfer described in point a). The transferring banks, following the contribution/sale, received units from the Fund for an amount equal to the sale price;
- d) subsequent issuance by the SPV 130 of untranchised notes, fully subscribed by the Fund.



Within the scope of this complex transaction, AMCO took a role as Master and Special Servicer of the securitisation and the Prelios Group the role as Real Estate partner as well as manager of the Fund through Prelios SGR. The partnership enabled to combine financial management skills with specific skills in the real estate sector, creating synergies and greater possibilities for credit collection. Furthermore, the fund is expected to be able to disburse new financing to assist the companies in achieving a turnaround as well as to complete attractive real estate projects.

The first step of this transaction was completed in December 2019 when the positions of 46 debtors were transferred to the Fund (for the MPS Group, 7 debtors) for a total of about EUR 453 mln (of which EUR 11 mln for the MPS Group) at a price of about EUR 242 mln (EUR 43 mln for the MPS Group). The assignor banks received as payment for the sale units of the Fund; the MPS Group totally holds 17.7% of this Fund.

As at 31 December 2019, the sold loans were fully derecognised from the assets in the financial statements of the Group, and units in the amount of EUR 32.3 mln, of which EUR 16.3 mln by the Parent Company and EUR 16.0 mln by the former subsidiary MPS Capital Services S.p.A., were recognised.

As at 31 December 2023, the Group held 4.1% of the Fund's units (5.2% as at 31 December 2022) for a book value of EUR 34.3 mln (EUR 33.2 mln as at 31 December 2022). The reduction in percentage equity investment is mainly due to new contributions made to the Fund by unit holders other than the Group.

Clessidra Fund

In September 2019, the Group finalised a sale of a multi-originator type of a portfolio of loans classified as “unlikely to pay”, issued to industrial and service companies located in Italy and with a turnover not under EUR 50 mln, to a Fund - managed by Clessidra SGR S.p.A. The price settlement was determined by offsetting the loan owed by the Fund with the concurrent underwriting of freed up units of the Fund.

The Fund was established for the purpose of improving the performance for the recovery of the loans acquired, thanks to the value increase of the target companies through:

- inputs of a managerial nature, made possible through the substantial addition of the Fund to the net financial positions of the companies and to any conversion of the acquired loans into equity instrument of the same companies;
- contribution of financial resources aimed at improving the industrial and financial turnaround.

The Fund has issued four categories of units with different economic rights:

- units A reserved to the transferring banks;
- units B and C intended for two categories of institutional investors who contribute a “new finance”;
- units D reserved to the Fund management team.

As at the date of transfer, the portfolio consisted of loans from the MPS Group and other banking groups to

13 target companies (for the MPS Group, 8 debtors) for a total gross exposure of approximately EUR 274 mln (for the MPS Group, approximately EUR 102 mln, of which EUR 91.2 mln relate to the Parent Company and EUR 10.7 mln to the subsidiary MPS Capital Services S.p.A.) at a total price of approximately EUR 196 mln (for the MPS Group, approximately EUR 78 mln for a 39.8% interest in the fund). The net book value of the loans as at the sale date for the MPS Group was about EUR 71 mln.

At the date of sale, the Group, given the high exposure to credit risk with respect to the loans sold, had not carried out the accounting derecognition of the loans sold, thus not recording the UCITS units of the Fund.

As at 31 December 2021, as there weren't any more the conditions preventing derecognition of the underlying loans, the Group proceeded to recognise the receivables sold and to recognise the Fund's units for a book value of EUR 44.6 mln.

As at 31 December 2023, the Group held 39.5% of the Fund's units (unchanged from 31 December 2022), with a book value of EUR 40.6 mln (EUR 45.6 mln as at 31 December 2022).

Idea I and Idea II Fund

In 2016 and 2017, the Group carried out two multioriginator sale transactions concerning loan portfolios (with full derecognition in the Financial Statements) to a mutual investment fund, with attribution of the related units to the transferor intermediaries. This refers to a project of Idea Capital Fund S.g.r., a management company that has established two multi-segment mutual investment funds called Fondo Idea CCR I (2016) and Fondo Idea CCR II (2017). These funds are closed-end asset funds reserved to qualified investors and their purpose is to maximise the



recovery rate of acquired non-performing loans and of new loans granted through the business and financial restructuring of medium sized companies.

With regard to the Idea CCR I Fund, the Group contributed 6 positions to the fund for a total of EUR 20.0 mln against a total of EUR 217 mln at a price of EUR 14.3 mln. At the date of transfer, the Group wrote off receivables with a net value of EUR 9.2 mln and received 8.1% of the shares of the Idea CCR I Fund as consideration for the transfer.

On the other hand, with regard to the Idea CCR II Fund, the Group contributed 5 positions to the fund for a total of EUR 51.5 mln against a total of EUR 328.9 mln at a price of EUR 32.7 mln. At the date of transfer, the Group wrote off receivables with a net value of EUR 29.8 mln and received 14.1% of the shares of the Idea CCR I Fund as consideration for the transfer.

As at 31 December 2023, the Group holds 6.39% and 4.00% of the units of sub-fund A respectively of the Idea CCR I Fund and the Idea CCR II Fund (6.39% and 6.32% as at 31 December 2022). The book value of these shares is respectively EUR 4.4 mln (unchanged from 31 December 2022) and EUR 10.5 mln (EUR 14.2 mln as at 31 December 2022). The reduction in percentage equity investment in Idea CCR II Fund is mainly due to new contributions made to the Fund by unit holders other than the Group.

For more information on the criteria for determining the units fair value of the above mentioned funds, please refer to Part A of these Notes to the consolidated financial statements.

D Covered bond transactions

Characteristics of the Covered Bond Issuance Programmes

The Group has two Covered Bond Issuance Programmes. The first Programme, meant for institutional investors, was launched in 2010 for an amount of EUR 10,000 mln. The programme is intended to place a secured product on the market, offering covered bonds as a preferred instrument for financial profile improvement in the mid and long term. In light of the developments in the financial markets, the Programme should be considered as part of a wider strategy, aimed at:

- curbing the costs of funding: covered bonds are widely preferred, inasmuch as they are issued directly by the Bank and their repayment is also guaranteed by a segregated pool of assets (in this case, residential mortgage loans); in the event of issuer bankruptcy, covered bond holders enjoy a right of recourse on a portfolio of segregated high-quality assets and are, therefore, willing to accept a lower yield than the one offered by similar uncovered bonds;
- diversifying the Bank's funding sources on the international market;
- lengthening its average debt maturity profile.

On 26 June 2015, the First Programme's meeting of the covered bond holders approved the proposed amendments in order to:

- amend the Programme, to obtain a rating from DBRS (in addition to Moody's and Fitch) for the covered bonds issued and to be issued as part of the Programme; and
- activate, if specific cases of default take place pursuant to the Programme, a "conditional pass through" type mechanism for the repayment of the bonds issued.

At the time of the annual renewal of the Programme, on 23 December 2017, its maximum amount was increased from EUR 10,000 mln to EUR 20,000 mln.

With a view to strengthen the Group's Counterbalancing Capacity, in 2012 a second Covered Bond Issuance Programme was authorised, collateralised by separate assets consisting of residential and commercial mortgage loans for a maximum of EUR 20,000 mln. The programme is not intended for the market but for instruments eligible as collateral in refinancing transactions through the European Central Bank. The programme, which did not have an explicit rating at its launch, was rated by DBRS in 2013.

The structure of the Group's Covered Bond programmes requires fulfilment of the following activities:

- a) the Parent Company or another Group company transfers, without recourse, a pool of assets, consisting of appropriate assets (real-estate backed, residential and commercial mortgage loans), to the vehicles MPS Covered Bond S.r.l. and MPS Covered Bond 2 S.r.l., thereby forming a segregated cover pool;
- b) the transferor grants a subordinated loan to the vehicle, for the purpose of financing payment of the assets' purchase price by the vehicle;



- c) the Parent Company issues Covered Bonds secured by an autonomous, irrevocable and unconditional first-demand guarantee issued by the vehicle for the only benefit of the bond-holding investors and senior creditors in the Programme (the guarantee involves limited recourse to the assets of the Cover Pool owned by the vehicle, which acts as Guarantor).

Accounting treatment

Pursuant to IFRS 9, the derecognition of a financial instrument from the balance sheet of the transferor is determined on the basis of the substance of the contract, not its legal form. Having said this, the deal is recognised as follows:

- transferred mortgage loans continue to be reported in the Parent Company's balance sheet under item 40b) of assets "Financial assets measured at amortised cost: loans to customers", sub-item "Mortgages", inasmuch as the Parent Company retains the risks and benefits of ownership of the loans transferred;
- the loan disbursed by the Parent Company to the Vehicle is not classified as a separate item in the balance sheet, since it is offset with the amount due to the Vehicle linked to the initial transfer price. The loan, therefore, is not subject to credit risk assessment, because this risk is entirely reflected in the assessment of transferred mortgage loans, which continue to be reported in the Parent Company's financial statements;
- mortgage loans are subject to movements based on own events (figures and assessment); instalments collected by the Parent Company (which also acts as a servicer) are reallocated daily to the Vehicle's "Collection Account" and accounted for by the Parent Company as follows:
 - collection of principal from borrower is recognised as an offsetting entry to the reduction in the loan to the borrower;
 - reallocation of principal to the Vehicle is recognised as an offsetting entry to the recognition of a loan to the Special Purpose Vehicle;
 - this loan is paid off upon repayment of the subordinated loan;
 - interest from the borrower is recognised as an offsetting entry to Item 10 of the Income Statement "Interest income: loans to customers" (interest on mortgage loans continues to be recognised on an accrual basis);
 - reallocation of interest to the Special Purpose Vehicle is recognised as an offsetting entry to the recognition of a loan to the Special Purpose Vehicle;
 - this loan is paid off upon collection of interest on the subordinated loan;
- the vehicles "MPS Covered Bond S.r.l." and "MPS Covered Bond 2 S.r.l." are invested in by the Parent Company for a control stake of 90%, recognised under Item 70 "Equity Investments" and included in the Group's Consolidated Financial Statements on a line-by-line basis;
- bonds issued are posted to Item 10c) "Financial liabilities measured at amortised cost: debt securities issued" on the liabilities side, and related interest expense is recognised on an accrual basis.

In consideration of the characteristics and accounting treatment of the deal, the swaps associated with the transaction are not recognised in the financial statements, since their recognition would entail, pursuant to par. B3.2.14 of IFRS 9, a duplication of rights and obligations already recognised due to mortgage loans transferred being maintained on the financial statements.

Risks and Control Measures

In order to allow the transferee to meet the obligations related to the collateral pledged, the Parent Company uses appropriate Asset & Liability Management techniques to secure a trend of substantial balance between the maturities of cash flows arising from the assets sold and maturities of payments due in relation with the covered bonds issued and other costs of the transaction.

The Programmes have been structured in compliance with the applicable legislative and regulatory provisions, and have undergone a thorough review to bring them into line with the provisions contained in the 42nd update of the Supervisory Provisions, implementing Italian Legislative Decree no. 190/2021, which introduced the Title I-bis in Italian Law 130/99 to implement the "Covered Bond Directive" in Italy.

The structure of the debt issuance programmes of the Parent Company (in the role of transferor and servicer) is subject to stringent regulatory requirements and calls for continuous actions, on a regular basis and for each transaction, by the competent Functions, as well as the Audit Function and an external auditor (Deloitte & Touche) as Asset Monitor. In particular, these actions include:

- assessments of the quality and integrity of assets transferred with regard, in particular, to the estimated value of properties, both residential and commercial, on which a mortgage in relation with the asset-backed loans is placed; this assessment may take the form of repurchases, additions and new transfers of additional assets, in compliance with the loan-to-value limits under art. 129 CRR;



- assessments on the maintenance of the correct ratio between the OBG issued and the assets pledged as collateral (cover pool - residential land and mortgage loans for the first programme and both residential and commercial for the second programme) and compliance with the liquidity buffer requirement;
- assessments on compliance with the internal operating limits for the transfer of eligible assets, as well as, if they are exceeded, the adoption of the necessary corrective measures;
- assessment on whether risks are effectively and adequately hedged by derivative contracts in relation to the transaction;
- the trend of financial flows related to the programme;
- the completeness, truthfulness and timeliness of the information made available to investors.

In the course of 2013, the mitigation strategy for interest rate risk on the first Programme was restructured in order to minimise the Special Purpose Vehicle's exposure to market counterparties. In particular, the newly-defined strategy aims to only cover the Special Purpose Vehicle's net exposure to interest rate risk, as opposed to the nominal amount. At the same time, the outsourcing of some Covered Bond Swaps outstanding with market counterparties was carried out.

The paragraphs below provide information on the nature of the risks associated with the interest in the *MPS Covered Bond S.r.l.* vehicle, whose assets are pledged as collateral of bond issues of the Parent Company partly placed with the market. In particular, the terms of the agreements that could require the Group to provide financial support to the vehicle *MPS Covered Bond S.r.l.* are as follows:

- the Parent Company is committed to ensuring compliance with hedging and liquidity requirements on an ongoing basis and with regulatory and contractual tests based on the methodologies set by the rating agencies from time to time;
- early repayment is possible, even in several instalments, of each subordinated loan under the Programme Line, if the legally required tests and the level of over collateralisation are complied with and if there are available funds. Early repayment is also permitted to comply with the maximum cash limit that can be held by the special purpose vehicle, where it is not possible to purchase new eligible assets (pursuant to the Subordinated Loan Agreement) to replace the cash subject to, in any event, that the repayment does not result in a breach of the Test;
- the Parent Company, pursuant to the Master Definition Agreement, is obliged to continuously comply with the liquidity requirement by setting up and adjusting the amount of the variable liquidity reserve in accordance with the criteria defined both by regulations and in agreement with the rating agencies.

As concerns the second programme, the terms of the agreements that could require the Group to provide financial support to the vehicle *MPS Covered Bond 2 S.r.l.* are as follows:

- the Parent Company undertakes, pursuant to the programme terms, to continuously ensure compliance with hedging and liquidity requirements and regulatory and contractual tests calculated according to the methodologies defined by the rating agency from time to time;
- early repayment is possible, even in several instalments, of each subordinated loan under the Programme Line, if the legally required tests and the level of over collateralisation are complied with and if there are available funds. Early repayment is also permitted to comply with the maximum cash limit that can be held by the special purpose vehicle, where it is not possible to purchase new eligible assets (pursuant to the Subordinated Loan Agreement) to replace the cash subject to, in any event, that the repayment does not result in a breach of the Test;
- the Parent Company, pursuant to the Master Definition Agreement, is required to comply with the liquidity requirement on an ongoing basis through the establishment and adjustment of the amount of the variable liquidity reserve according to criteria defined by regulations and agreed upon with the rating agency.

During the financial period under review the Parent Company and its subsidiaries have not provided any financial or other support without being obliged under the contract.

There are no cases of financial or other support to a previously non-consolidated structured entity as a result of which the structured entity was controlled by the Group.

The Group does not intend to provide financial or other support to the vehicle, nor to assist the entity in obtaining financial support.



Description of individual disposals and issuances

As part of the first Programme, the Parent Company did not sell eligible assets in 2023.

Here follows a summary of the main characteristics regarding transfers in the First Programme:

Cover Pool transfer date	Type of securitised assets	Transferor	Total value of asset transferred (in units of eur)	N° of mortgage loans transferred	Breakdown of transferred debtors by business sectors
25/05/10	Residential mortgage loans	MPS Bank	4,413,282,561	36,711	100% natural persons
19/11/10	Residential mortgage loans	MPS Bank	2,400,343,584	19,058	100% natural persons
25/02/11	Residential mortgage loans	MPS Bank	3,887,509,799	40,627	100% natural persons
25/05/11	Residential mortgage loans	MPS Bank (ex Antonveneta Bank)	2,343,824,924	26,804	100% natural persons
16/09/11	Residential mortgage loans	MPS Bank	2,323,368,355	27,973	100% natural persons
14/06/13	Residential mortgage loans	MPS Bank	415,948,266	4,259	100% natural persons
18/09/15	Residential mortgage loans	MPS Bank	1,529,531,983	15,080	100% natural persons
31/10/16	Residential mortgage loans	MPS Bank	775,933,585	7,630	100% natural persons
22/12/16	Residential mortgage loans	MPS Bank	237,758,336	1,903	100% natural persons
03/05/18	Residential mortgage loans	MPS Bank	1,311,870,107	12,401	100% natural persons
27/02/19	Residential mortgage loans	MPS Bank	1,809,753,193	16,880	100% natural persons
16/10/19	Residential mortgage loans	MPS Bank	1,262,890,758	12,008	100% natural persons
15/06/20	Residential mortgage loans	MPS Bank	1,433,158,855	13,107	100% natural persons
18/05/21	Residential mortgage loans	MPS Bank	1,665,859,006	15,074	100% natural persons
20/06/22	Residential mortgage loans	MPS Bank	912,293,907	8,837	100% natural persons
Total			26,723,327,219	258,352	

The remaining debt balance on the portfolio as at 31 December 2023 amounted to EUR 10,265.6 mln for 138,731 mortgage loans.

As part of the first Programme, the Parent Company completed over the years a total of thirty three ⁴⁹issuances, eleven of which had not yet matured or been repaid early for a nominal amount, as at 31 December 2023, of EUR 7,700.0 mln, of which EUR 4,505.3 mln is on the market and EUR 3,194.7 mln is held by the Parent Company and the subsidiary Monte Paschi Banque S.A..

During 2023, under the first *Covered Bond Programme*, no issues were carried out.

As part of the second Programme, on 21 November 2023 a portfolio for a total of 10,798 performing residential and commercial mortgage loans was sold, with no outstanding payments at the date of portfolio valuation, as well as meeting selection criteria substantially comparable to those used for previous disposals, for a total amount of EUR 1,125.2 mln.

⁴⁹ This number of issues includes 3 registered covered bonds, private issues under the programme.



Here follows a summary of the main characteristics regarding transfers in the Second Programme:

Cover Pool transfer date	Type of securitised assets	Transferor	Total value of asset transferred (in units of eur)	N° of mortgage loans transferred	Breakdown of transferred debtors by business sectors
30/04/12	Residential mortgage loans	MPS Bank	2,384,995,478	27,047	100% natural persons
26/06/12	Residential and commercial mortgage loans	MPS Bank	2,478,270,455	13,993	Mixed
28/08/12	Residential and commercial mortgage loans	MPS Bank	1,401,965,498	17,353	Mixed
24/09/12	Residential and commercial mortgage loans	MPS Bank	2,473,677,574	9,870	Mixed
18/02/13	Residential and commercial mortgage loans	MPS Bank	1,286,740,404	9,033	Mixed
24/06/13	Residential and commercial mortgage loans	MPS Bank	2,147,692,217	12,771	Mixed
25/03/14	Residential and commercial mortgage loans	MPS Bank	1,464,170,335	5,645	Mixed
20/10/15	Residential and commercial mortgage loans	MPS Bank	977,548,353	5,671	Mixed
18/07/16	Residential and commercial mortgage loans	MPS Bank	2,010,907,195	24,162	Mixed
29/08/16	Residential and commercial mortgage loans	MPS Bank	813,253,156	7,211	Mixed
31/03/17	Residential and commercial mortgage loans	MPS Bank	789,153,182	5,799	Mixed
11/05/18	Residential and commercial mortgage loans	MPS Bank	685,537,103	4,718	Mixed
14/11/18	Residential and commercial mortgage loans	MPS Bank	470,369,358	3,002	Mixed
30/09/19	Residential and commercial mortgage loans	MPS Bank	727,237,065	4,549	Mixed
26/02/20	Residential and commercial mortgage loans	MPS Bank	1,034,517,196	8,625	Mixed
19/04/21	Residential and commercial mortgage loans	MPS Bank	1,519,843,073	12,916	Mixed
30/11/21	Residential and commercial mortgage loans	MPS Bank	1,751,398,674	14,646	Mixed
18/07/22	Residential and commercial mortgage loans	MPS Bank	1,000,344,594	7,363	Mixed
21/11/23	Residential and commercial mortgage loans	MPS Bank	1,125,164,843	10,798	Mixed
Total			26,542,785,754	205,172	

The remaining debt balance on the portfolio as at 31 December 2023 amounted to EUR 10,183.9 mln for 111,184 mortgage loans.

As part of the second Programme, the Parent Company completed forty-seven issues, of which twelve not yet matured or redeemed early, which were not intended for the market but repurchased by the Parent Company and used as collateral for refinancing transactions in the Eurosystem, for a total as at 31 December 2023 of EUR 8,250.0 mln.

As part of the second Covered Bond Programme, the following issue was made in 2023:

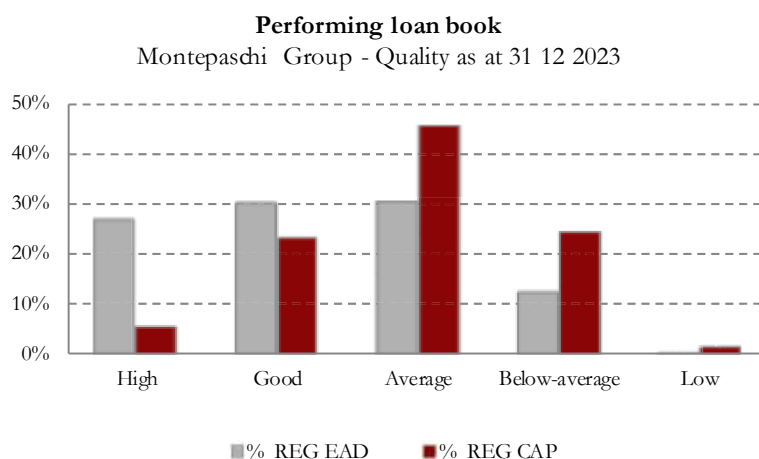
Date of issued	Notional Amount	Coupon	Frequency	Date of maturity
14/12/23	600,000,000	3.75%	Quarterly	Jan-27



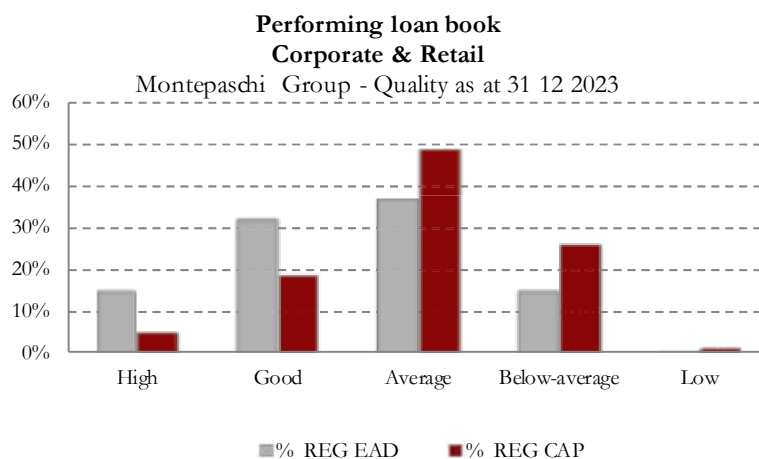
E. Prudential consolidation - Credit risk measurement models

This paragraph provides information of a quantitative nature related to the models for the measurement of credit risk, the qualitative characteristics of which have been described in Chapter 2 “Credit risk management policies” of Section 2 “Prudential consolidation risk” of these Notes to the consolidated financial statements.

The chart below provides a credit quality breakdown of the Group portfolio as at 31 December 2023 by Exposure to Risk (REG EAD) and Regulatory Capital (REG CAP). It should be noted that about 57% (42% as at 31 December 2022) of risk exposure relates to high- and good-quality customers (positions in financial assets, represented by debt securities, 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. The quality is measured in terms of probability of default assigned to customers through the AIRB models of the MPS Group. Non-AIRB counterparties are nevertheless subject to a credit standing assessment using official ratings where available or appropriate internally determined benchmark values.



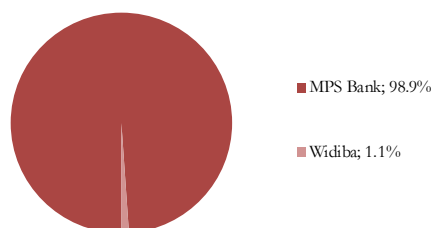
On the other hand, the following chart provides a breakdown of credit quality only for Corporate and Retail portfolios (which are largely validated by the Supervisory Authority for the use of internal PD and LGD models). As at 31 December 2023, high or good quality exposure accounted for approximately 47% of total exposure (31% as at 31 December 2022).



With reference to Risk Exposure, the Parent Company covers 98.9% of the Group's total, while Widiba covers the remaining 1.1%.

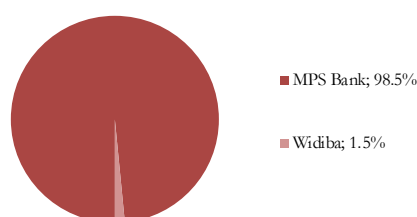


Risk Exposure
Montepaschi Group - 31 12 2023



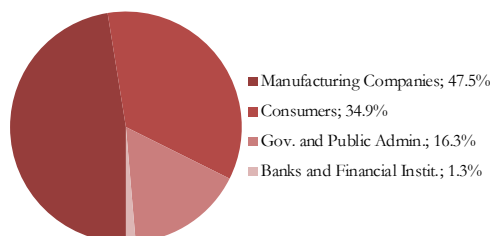
The Regulatory Capital for credit risk is absorbed mainly by the Parent Company (98.5%), followed by Widiba (1.5%).

Regulatory Capital
Montepaschi Group - 31 12 2023



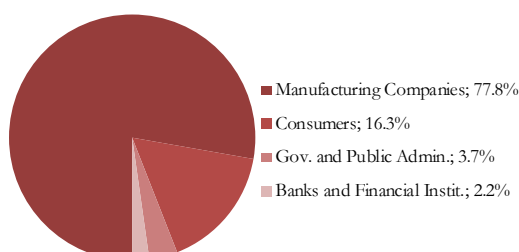
An analysis conducted at the end of 2023 shows that the Group's risk exposure is mainly toward "Manufacturing Companies" (47.5% of total loans disbursed), "Households" (34.9%), "Governments and Public Administration" (16.3%) and "Banks and Financial Institutions" (1.3%).

Risk Exposure
Montepaschi Group - 31 12 2023



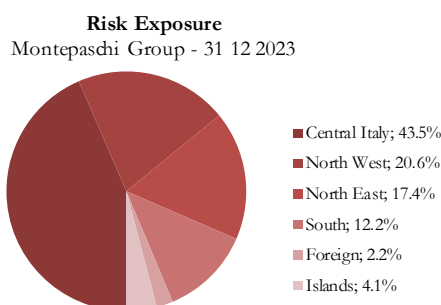
In terms of Regulatory Capital, 77.8% is absorbed by the "Manufacturing Companies" customer segment. The "Households" segment stands at 16.3%; followed by "Governments and Public Administration" and "Banks and Financial Institutions" with 3.7% and 2.2% respectively:

Regulatory Capital
Montepaschi Group - 31 12 2023

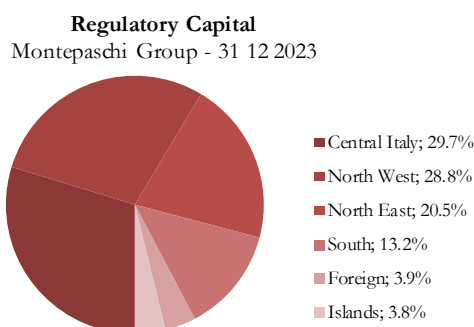




An analysis of the geographical breakdown of the Group customers shows that exposure to risk is primarily concentrated in the regions of the Centre (43.5%), followed by those in the North West (20.6%), North East (17.4%), South (12.2%), Islands (4.1%) and abroad (2.2%).

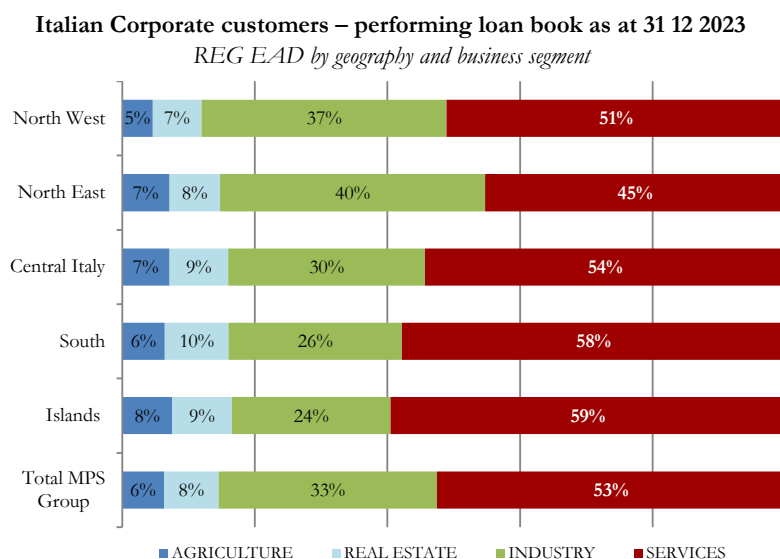


Regulatory Capital absorption is also higher in Central Italy (29.7%), in North West Italy (28.8%) and North East Italy (20.5%) due to the greater concentration of loans in those areas. These are followed by the South (13.2%), Abroad (3.9%) and the Islands (3.8%):



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 Group’s total exposure, the share of Services accounts for 53% and is followed by Industry (33%), Building (8%) and Agriculture (6%):

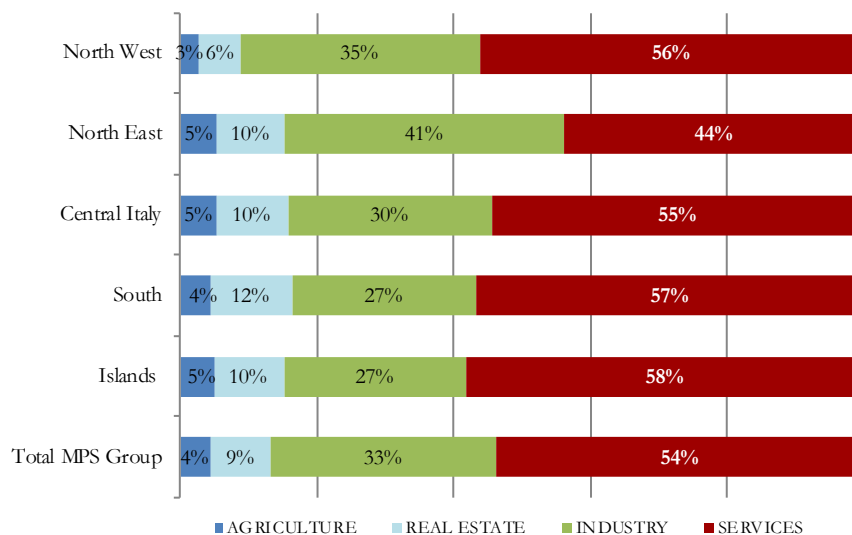




Also as regards Regulatory Capital (REG CAP), the greater concentration relates to the Services sector in all Geographic Areas. Of the Group total, the predominant sector remains Services (54%).

Italian Corporate customers – performing loan book as at 31 12 2023

REG CAP by geography and business segment



The comparison between expected loss and actual loss is performed on an annual basis by the internal control function as part of PD and LGD back testing procedures.



1.2 – Market risks

1.2.1 Interest rate and price risk – Regulatory trading book

Market risks relating to the Trading Book

Market risk management model for the Trading Book

The Group's Regulatory Trading Book (PNV - Portafoglio di Negoziazione di Vigilanza) consists of the set of Trading Books managed by the Parent Company (BMPS), in particular by the Chief Financial Officer (CFO) Division and the Chief Commercial Officer Large Corporate & Investment Banking (LCIB) Department. The subsidiaries' portfolios are immune to market risk. Trading in derivatives, which are brokered on behalf of customers, is centralised at LCIB Department.

The market risks in the trading book are monitored in terms of Value-at-Risk (VaR) for operational purposes. The Group's Finance and Liquidity Committee is responsible for directing and coordinating the overall process of managing the Group's proprietary finance thereby ensuring that the management strategies of the various business units are consistent.

The Group's Trading Book is subject to daily monitoring and reporting by the Risk Management Function of the Parent Company on the basis of proprietary systems. VaR for management purposes is calculated separately from the operating units, using the internal risk measurement model implemented by the above mentioned function in keeping with international best practices. The Group uses the standardised methodology in the area of market risks solely for reporting purposes.

Operating limits defined for trading activities are expressed by level of delegated authority in terms of VaR, which is diversified by risk factors and portfolios, monthly and annual stop losses, and stress. Furthermore, the trading book's credit risk, in addition to being included in VaR computations and in the respective limits for the credit spread risk component, is also subject to specific operating limits for issuer and bond concentration risk which specify maximum notional amounts by type of guarantor and rating class.

VaR is calculated with a 99% confidence interval and a holding period of one business day. The Group adopts the method of historical simulation with daily full revaluation of all basic positions, out of 500 historical entries of risk factors (lookback period) with daily scrolling. The VaR calculated in this manner takes account of all diversification effects of risk factors, portfolios and types of instruments traded. It is not necessary to assume, a priori, any functional form in the distribution of asset returns, and the correlations of different financial instruments are implicitly captured by the VaR model on the basis of the combined time trend of risk factors. The trend-based scenarios used in the model are constructed as the daily change, in terms of the ratio, of the individual risk factors; the shock is applied to the current market level, making the VaR measure reactive to changes in market conditions.

Periodically, information on market risks is transmitted to the Risk Management Committee and to the Top Bodies as part of the information flows with which Top Management and the Governing Bodies are informed about the Group's overall risk profile.

The macro-categories of risk factors covered by the Internal Market Risk Model are IR, EQ, CO, FX and CS as described below:

- IR: interest rates on all relevant curves, inflation curves and related volatilities;
- EQ: share prices, indexes, and relative volatilities;
- CO: commodity prices;
- FX: exchange rates and related volatilities;
- CS: credit spread levels.

VaR (or diversified or net VaR) is calculated and broken down daily for internal management purposes, even with respect to other dimensions of analysis:

- organisational/management analysis of portfolios;
- analysis by financial instrument;
- analysis by risk family.

It is then possible to assess VaR along each combination of these dimensions in order to facilitate highly detailed analyses of events characterising the portfolios.

In particular, with reference to risk factors the following are identified: Interest Rate VaR (IR VaR), Equity VaR (EQ VaR), Commodity VaR (CO VaR), Forex VaR (FX VaR) and Credit Spread VaR (CS VaR). The algebraic sum of these items gives the so-called Gross VaR (or non-diversified VaR), which, when compared with diversified



VaR, makes it possible to quantify the benefit of diversifying risk factors resulting from holding portfolios on asset class and risk factor allocations which are not perfectly correlated. This information can also be analysed along all the dimensions referenced above.

The model enables the production of diversified VaR metrics for the entire Group in order to get an integrated overview of all the effects of diversification that can be generated among the portfolios on account of the specific joint positioning of the various business units.

Moreover, scenario and stress-test analyses are regularly conducted on various risk factors with different degrees of granularity across the entire tree structure of the Group's portfolios and for all categories of instruments analysed. Stress tests are used to assess the Group's capacity to absorb large potential losses in extreme market situations, so as to identify the measures necessary to reduce the risk profile and preserve assets.

Stress tests are developed on the basis of discretionary and trend-based scenarios. Trend-based scenarios are defined on the basis of previously registered real situations of market disruption. Such scenarios are identified based on a time frame in which risk factors were subjected to stress. No particular assumptions are required with regard to the correlation among risk factors since trend-based data for the stress period identified has been measured.

Stress tests based upon discretionary scenarios assume extreme changes occurring to certain market parameters (interest rates, exchange rates, prices of goods and shares, stock indices, credit spreads and volatility) and measure the corresponding impact on the value of portfolios, regardless of their actual occurrence in the past. Simple discretionary scenarios are currently being developed (variation of a single risk factor) as are multiple ones (variation of several risk factors simultaneously). Simple discretionary scenarios are calibrated to independently deal with one category of risk factors at a time, assuming shocks do not spread to the other factors. Multiple discretionary scenarios, on the other hand, aim to assess the impact of global shocks that simultaneously affect all types of risk factors.

It should be noted that the VaR methodology described above is, for operational purposes, also applied to the portion of the Banking Book consisting of financial instruments that are similar to trading instruments (e.g. equity/bond securities held in portfolios classified for accounting purposes as *"Financial assets mandatorily measured at fair value"*, *"financial assets measured at fair value through other comprehensive income"* and *"financial assets measured at amortised cost"*) The measurements and the charts below refer to the Regulatory Trading Book.

During 2023, the market risks of the Group's Regulatory Trading Book showed, in terms of VaR, a performance determined by a trend driven by the operations of the Parent Company's LCIB Department, mainly for proprietary trading activities in the Credit Spread and Interest Rate segments (transactions in Italian government bonds and hedges via swaps and long futures) and, to a lesser extent, client-driven activities in the Equity segment related to the structuring of bancassurance products. The CFO Department's portfolio contribution to total VaR was negligible.

The Group's VaR has remained at lower average levels compared to the previous year, by virtue of maintaining a general process of risk containment.

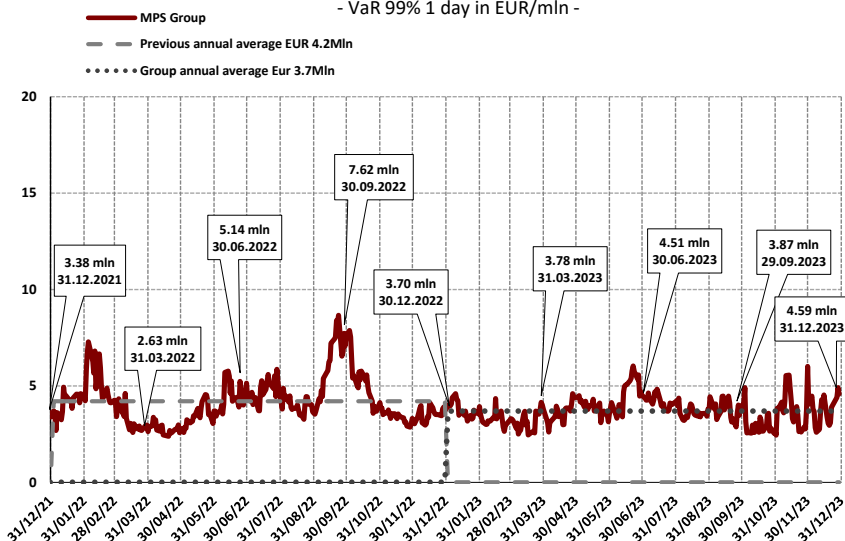
VaR volatility, albeit limited over the year, was affected by the operations of the auctions on Italian government bonds for primary dealer activities, with temporary changes in the overall CS Italy risk exposure, primarily short term.

Despite some temporary increases in exposure in conjunction with the auctions for the aforementioned primary dealer activities, the average holding of Italian sovereign securities in the Group's trading portfolios remained low during the year (annual average of EUR 0.39 bn in nominal terms), significantly lower than the 2022 average (EUR 3.71 bn).

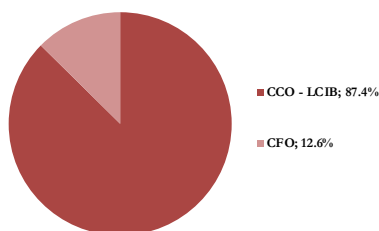


Montepaschi Group: Trading Book

- VaR 99% 1 day in EUR/mIn -

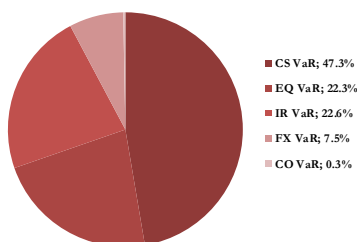


VaR Montepaschi Group
Trading book
VaR Breakdown 31/12/2023



With reference to the Parent Company management, LCIB CCO contributed 87.4% to the overall risk as at 31 December 2023, while the CFO contributed 12.6%.

MPS Group: Trading Book
VaR by Risk Factor as at 31/12/2023



A breakdown of VaR by risk factors shows that 47.3% of the Group's portfolio was allocated to credit-spread risk factors (CS VaR), 22.6% was absorbed by interest rate risk factors (IR VaR), 22.3% by equity risk factors (EQ VaR), 7.5% by foreign exchange risk factors (FX VaR), and the remaining 0.3% by commodity risk factors (CO VaR).

Montepaschi Group VaR PNV 99% 1 day in EUR/mIn

	VaR	Data
End of Period	4.59	29/12/2023
Minimum	2.44	01/11/2023
Maximum	6.03	22/06/2023
Average	3.70	

In 2023, the Group's VaR in the Regulatory Trading Book ranged between a high of EUR 6.03 mln recorded on 22 June 2023 and a low of EUR 2.44 mln at the beginning of November 2023, recording an average of EUR 3.70 mln, down from the previous year. The Regulatory Trading Book VaR at the end of June 2023 was EUR 4.59 mln.



VaR model back testing

The Group has implemented a back testing procedure compliant with current regulations governing Market Risk as part of its own risk management system.

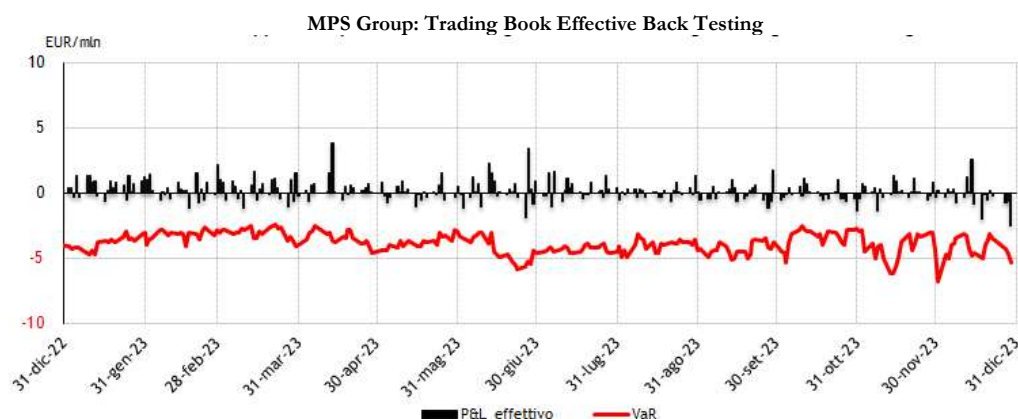
Back testing refers to a series of tests conducted on VaR model results against day-to-day changes in the trading book value, with a view on assessing the model's forecasting capacity as regards the accuracy of the calculated risk metrics. If the model is robust, by periodically comparing the estimated daily VaR in t-1 against the results of the trading activity in t, it should be possible to determine that the actual losses are greater than the VaR with a frequency consistent with that defined by the confidence level.

Based on current supervisory instructions, the Risk Management Function considered it appropriate to apply the actual back testing methods, integrating these into the Group's management reporting system.

The actual back testing meets the need for verifying the VaR model's forecasting reliability in reference to the actual Group operations (daily trading profit and losses) less the effect of any interest accrued between trading days t-1 and t on bonds, and less the effect of fees and commissions.

These "clean" P&L results (the "effective P&L") are compared with the previous trading day VaR. If the losses are greater than those forecast by the model an "exception" is recorded.

The chart below shows the actual back testing results of the internal Market Risks model in relation to the Group's Regulatory Trading Book for 2023:



The back testing shows no exceptions in 2023.

Structured credit product

As at 31 December 2023, the Group did not have a particularly significant portfolio of structured credit products compared to its total financial assets or its total assets.

These investments are subject to risk limits set by the Board of Directors and monitored daily by the Parent Company Risk Management Function; stop loss, risk and nominal limits are defined for maximum exposure for major issuer categories, broken down by rating.

The data reported in this section refer to the entire Group. Note that no structured credit products considered in this disclosure have embedded credit derivatives that need to be separated from their host contract for IFRS 9 purposes.

As at 31 December 2023, there were no direct or indirect exposures to US sub-prime mortgage loans, Alt-A or monoline insurers.

Positions in Securitisations of third-party issuers

As at 31 December 2023, the securities positions on structured credit products other than own securitisations had a total book value of EUR 40.3 mln compared to EUR 183.7 mln as at 31 December 2022.

This section does not analyse the securitisations issued by Siena NPL from the transfer of bad loans carried out on 22 December 2017 (deconsolidated in June 2018) since the loans transferred to the Special Purpose Vehicle



originated from the MPS Group. Likewise, the ABS issued by the Norma SPV as part of a securitisation of non-performing loans, also originated by banks outside the MPS Group, are not considered.

From an economic point of view, the following was recorded: a negative component “Net profit (loss) from trading - Item 80” of EUR 9.9 mln and a positive component “Interest income and similar income - Item 10” for EUR 3.3 mln. Within the portfolio of financial assets measured at amortised cost, there was also a negligible write-down of “Net impairment (losses)/reversals for credit risk - item 130”.

With regard to the regulatory classification, the positions are primarily held by the LCIB (Large Corporate & Investment Banking) Department (87.7%) and allocated to the Trading Book (87.7% in terms of book value); the instruments are classified for accounting purposes into FVTPL (87.7%) and FVOCI (12.3%).

As regards the types of underlyings transferred through securitisation transactions, commercial mortgages (63.2%) prevailed over non-performing loans (36.8%).

Geographically speaking, all loans transferred originated in Italy. Overall, 41.1% of the book value of the exposures consists of investment grade securities (with rating up to BBB- included). The senior tranche accounts for 69.8% of the exposures in terms of book value, while the mezzanine tranches account for the remaining 30.2%.

Credit Derivative Positions

All exposures analysed in this section are standardised credit indices, synthetic tranches, options on credit indices and single-name CDS.

As at 31 December 2023, net exposures to this type of derivatives have a book value of EUR 92.0 mln (EUR 142.7 mln as at 31 December 2022); all these financial instruments are included in the Trading Book.

In terms of profit and loss, there was a positive component in “Item 80 – Net profit (loss) from trading” for EUR 46.7 mln.



Qualitative Information

A. General aspects

Each bank of the MPS Group which is relevant as a market risk-taking centre contributes to the generation of interest rate risk and price risk in the overall Trading Book.

A.1 Interest rate risk

With reference to the Parent Company, trading activities are mainly carried out by the Global Markets structure of the CCO - LCIB Department and, to a limited extent, by the Finance Treasury and Capital Management (FTCM) structure of the CFO Department.

LCIB manages a proprietary portfolio which takes trading positions on interest rates and credit. In general, interest rate positions are taken by purchasing or selling bonds, and by creating positions in listed derivatives (futures) and OTCs (e.g. IRS, *swaptions*). Trading is carried out exclusively on the Bank's own behalf, with objectives of absolute return, in compliance with the delegated limits of monthly and yearly VaR and stop loss.

In particular, the LCIB operates in the short-term portion of the main interest rate curves, mostly through bonds and listed derivatives.

With regard to credit risk in the trading book, the equity positions are generally managed through the purchase or sale of bonds issued by companies or by creating synthetic positions in derivatives. The activity is oriented to achieve a long or short position on individual issuers, or a long or short exposure on specific market sectors. The activity is carried out solely on the Bank's own behalf with objectives of absolute return and in compliance with other specific issuer and concentration risk limits.

A.2 Price risk

Also in relation to Price risk factor, the Business Area in charge of the trading activity is the Global Markets structure of the CCO - LCIB Department, which manages a proprietary portfolio and assumes trading positions on equities, indices and commodities, mainly related to client-driven activities. In general, positions on equity securities are taken both through the purchase/sale of equities and through the positions created in listed derivatives (e.g. futures) and OTC (e.g. options). Commodity positions refer to Client-Driven activities serving commercial clients through trading in OTC derivatives (e.g. commodity swaps) with exposure hedges through listed instruments (e.g. commodity futures). Trading is carried out exclusively on the Bank's own behalf, with objectives of absolute return, in compliance with the delegated limits of monthly and yearly VaR and stop loss. Similarly, for the CFO Department, trading activities, of a limited extent, are carried out by the Finance, Treasury and Capital Management (FTCM) structure.

B. Interest rate risk and price risk: operational processes and measurement methods

With regard to the market risk management process concerning the management and methods for measuring interest rate and price risk, see the above paragraph entitled "Market risk management model for the trading book".

Quantitative Information

1. Regulatory Trading Book: breakdown of balance sheet financial assets/liabilities and financial derivatives by residual life (repricing date)

This table was not prepared since an analysis of the Regulatory Trading Book's sensitivity to interest rate risk and price risk is produced based on internal models.

2. Regulatory Trading Book: breakdown of exposures in equity instruments and stock indices by major countries of the listing market.

This table was not prepared since an analysis of the Regulatory Trading Book's sensitivity to interest rate risk and price risk is produced based on internal models.

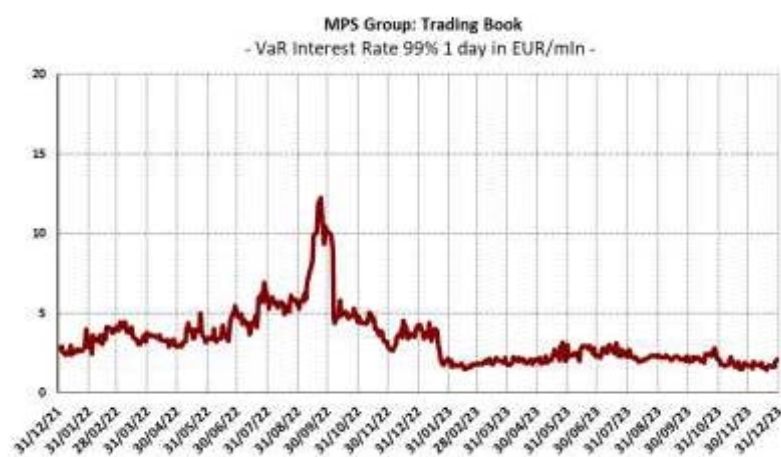
3. Regulatory Trading Book: internal models and other sensitivity analysis methods

The rate and price risk of the Trading Book is monitored in terms of VaR and scenario analysis.



3.1 Interest rate risk

Each business unit within the Group 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. The VaR by risk factor (specifically, Interest Rate VaR) has operational relevance for the purpose of risk management analyses, even though it is the global VaR diversified among risk factors and portfolios that is used by the operating units. Below is information on the Group's diversified Interest Rate Regulatory Trading Book VaR:



The trend in Interest Rate VaR during 2023 was influenced by the trading activities of the LCIB Department, primarily in bonds and derivatives. The portfolio was managed by maintaining a limited exposure to interest rate risk factors and, as a result, the Interest Rate VaR metric was limited in size and characterised by low volatility, standing at EUR 2.07 mln at the end of December, just a little below the average for the year.

■ MPS Group
VaR TB IR 99% 1 day in EUR/mln

	VaR	Date
End of period	2.07	29/12/2023
Minimum	1.44	19/12/2023
Maximum	4.36	10/01/2023
Average	2.21	

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 interest rate curves.

All positions related to the Trading Book are classified as “Financial assets held for trading” for accounting purposes, with changes in market value posted directly to the income statement. Below is the overall effect of the scenario analyses.

■ MPS Group: Trading Book

EUR/mln		
Risk Family	Scenario	Overall Effect
Interest Rate	+100bp on each curve	7.72
Interest Rate	-100bp on each curve	(4.27)
Interest Rate	+point interestt Rate Volatili	0.04



To complete the interest rate risk analysis, details are also provided on the credit spread risk of the Group's Trading Book associated with the volatility of issuers' credit spreads. The VaR by risk factor (specifically, Credit Spread VaR) has operational relevance for the purpose of risk management analyses, even though the operating units use the overall VaR diversified among all risk factors and portfolios.



In 2023, the trend in Credit Spread VaR was mainly affected by trading activities of the LCIB Department, primarily in Italian short-term government bonds, linked to cycles of auctions, with partial derivatives hedging (medium BTP futures). The Credit Spread VaR, characterised by limited volatility, is linked to the pursuit of a general risk containment policy.

At the end of December, the Credit Spread VaR stood at EUR 4.33 mln, higher than the average for the year.

■ MPS Group
VaR TB CS 99% 1 day in EUR/mtn

	VaR	Date
End of period	4.33	29/12/2023
Minimum	0.99	07/02/2023
Maximum	5.40	10/11/2023
Average	2.34	

For the purposes of sensitivity analysis, the simulation scenario is as follows:

- +1 bp parallel shift for all credit spreads.

All positions related to the Trading Book are classified as “Financial assets held for trading” for accounting purposes, with changes in market value posted directly to the income statement. Below is the overall effect of the scenario analyses.

■ MPS Group: Trading Book

EUR/mtn		
Risk Family	Scenario	Overall Effect
Credit Spread	+1bps on each curve	(0.12)

3.2 Price risk

Each business unit within the Group 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 price risk, when allowed) in order to benefit from the natural hedge resulting from simultaneously holding positions on risk factors that are not perfectly correlated. The VaR by risk factor (specifically, Equity VaR and Commodity VaR) has management relevance for the purpose



of risk management analyses, even though it is the global VaR diversified among risk factors and portfolios that is used by the operating units.

Below is information on the Group's diversified Equity VaR.



In 2023 the Equity VaR was influenced by the LCIB Department's activities related to the structuring and hedging of bancassurance products, and to a lesser extent by the trading activities, mostly on options and futures with key market indexes as underlying. At the end of December, the Equity VaR came to EUR 2,05 mln, slightly above the average for the year.

■ MPS Group		
VaR TB EQ 99% 1 day in EUR/mlin		
	VaR	Date
End of period	2.05	29/12/2023
Minimum	0.88	22/03/2023
Maximum	2.86	01/02/2023
Average	1.69	

The simulated price scenarios are as follows:

- +1% of each equity or index price;
- -1% of each equity or index price;
- +1 point of all volatility surfaces of all equity risk factors.

All positions related to the Trading Book are classified as "Financial assets held for trading" for accounting purposes, with changes in market value posted directly to the income statement. Below is the overall effect of the scenario analyses for the equity component:

■ MPS Group: Trading Book		
EUR/mlin		
Risk Family	Scenario	Overall Effect
Equity	+1% Equity Prices (prices, indices)	(0.04)
Equity	+1% Equity Prices (prices, indices)	(0.01)
Equity	+1 point Equity Volatility	0.18

In terms of exposure to commodity risk, during the year trends in the Commodity VaR were affected by the LICB Department due to activities carried out in support of the customers, primarily on commodity swaps, and exposure hedges through commodity futures with underlying the main listed commodity indices. At the end of December, the Commodity VaR came to EUR 0,03 mln, the lowest levels of the year.



■ MPS Group
VaR CO 99% 1 day in EUR/mtn

	VaR	Date
End of period	0.03	29/12/2023
Minimum	0.02	08/12/2023
Maximum	0.20	19/01/2023
Average	0.09	

The simulated price scenarios are as follows:

- +1% of each commodity price;
- -1% of each commodity price;
- +1 point of all volatility surfaces of all commodity risk factors.

All positions related to the Trading Book are classified as “Financial assets held for trading” for accounting purposes, with changes in market value posted directly to the income statement.

Scenario analyses for the Commodity segment are not reported as they are not relevant.



1.2.2 Interest rate and price risk - Banking Book

Qualitative Information

A. General aspects, operational processes and measurement methods for interest rate risk and price risk

A.1 Interest rate risk

The Banking Book consists of all exposures not included in the Trading Book and, in accordance with international best practices, identifies the set of the Group's commercial trades connected to the transformation of maturities in the assets and liabilities and ALM financial activities (treasury and risk hedging derivatives).

The strategic Banking Book rate risk choices are defined periodically in the IRRBB Strategy document, validated by the Group Finance and Liquidity Committee and approved by the Board of Directors; these choices are based on interest rate risk measures expressed in terms of changes in economic value as well as net interest income.

Considering the recent macroeconomic context, characterised by restrictive monetary policy made by the ECB, in order to contrast inflationary pressures, in 2023 the Group adopted an interest rate risk management strategy aimed to maintaining a positive interest margin exposure to rising rates. In this regard, the strategy was set up by adjusting the hedging of balance sheet assets and liabilities, in order to reach and maintain sensitivity at desired level and within the assigned interest rate risk limits.

With reference to the sensitivity test on economic value, the Montepaschi Group applies a predefined set of interest rate scenarios in line with the Basel guidelines, which envisage non-parallel movements of the curve aside from parallel shifts of 25, 100 and 200 bps. As net interest income analyses focus on the short term, they consider exclusively the application of parallel scenarios. The economic value sensitivity measures are determined by clearing the origination of the cash flows of the components not directly relating to interest rate risk.

The Group is committed to the continual updating of risk measurement methodologies by gradually fine-tuning the estimation models so as to include all major factors that progressively modify the interest rate risk profile of the banking book.

Risk metrics are calculated by using a model for the valuation of demand items (Non-Maturity Deposits, NMDs) whose characteristics of stability and partial insensitivity to interest rate changes are described in the systems with a statistical approach which takes into consideration the time series of customer behaviours.

The Montepaschi Group, in order to take into account the prepayment phenomenon on the Parent Company's mortgages, uses a scenario-dependent behavioural model, based on survival analysis, for the cluster of fixed-rate performing retail residential mortgages and a simplified CPR (Constant Prepayment Rate) approach for the complementary part of the overall portfolio. In addition, the Group uses a behavioural model, based on survival analysis, to factor in the phenomenon of early repayment on the Parent Company's fixed-rate time deposits (Redemption Risk) and an approach for the treatment of non-performing loans net of their credit impairment. The Group adopts an interest rate risk governance and management system known as the IRRBB Framework which avails itself of:

- a quantitative model, which provides the basis for monthly calculation of the exposure of the Group and the individual companies to interest rate risk in terms of risk indicators;
- risk monitoring processes, aimed at periodically verifying compliance with the operational limits (risk limits and risk tolerance) assigned to the Group overall and to the individual legal entities within the Risk Appetite Statement;
- risk control and management processes, geared toward bringing about adequate initiatives for optimising the risk profile and activating any necessary corrective actions in the case of exceptions from and/or misalignments with the IRRBB Strategy.

Within the above system, the following responsibilities are centralised in the Parent Company:

- definition of strategic and operational policies for managing the Group's Banking Book and controlling its interest rate risk;
- coordination of Group policies' implementation by the companies included in the scope;
- governance of the Group's short-, medium- and long-term rate risk position, both overall and at individual company level, through centralised operational management.



In its governance function, the Parent Company therefore defines criteria, policies, responsibilities, processes, limits and instruments for rate risk management.

The Group Companies included in the scope of application are responsible for abiding by the rate risk policies and limits defined by the Parent Company and the requirements set by the relevant Supervisory Authorities.

Within the model defined, the Finance, Treasury and Capital Management structure (FTCM) of the Parent Company is responsible for the operational management of the Group's overall rate and liquidity risk.

Specifically, within FTCM, the Proprietary Finance, Forex and Call Desk structure manages short-term rate risk and structural rate risk. In addition, FTCM carries out hedge monitoring and management activities consistent with accounting policies, involving centralised oversight for definition of the network's internal rates (BMPS and other Group companies) for Euro and foreign currency transactions with maturities beyond the short term.

A.2 Price risk

The Group's Banking Book, subject to price risk, consists primarily of equity investments, equities and UCITS, measured at fair value. Trading in UCITS is carried out exclusively through the direct purchase of the funds/SICAVs, with no use being made of derivative contracts. Exposure to commodities of the Group's Banking Book was equal to zero.

Price risk measurement is carried out on positions held primarily for strategic or institutional/instrumental purposes.

The instrument used for measuring price risk applied to equity securities and UCITS, other than equity investments, is the Value at Risk (VaR), the methodology of which is described in Section 2 - "Market risks" of this Part E of the Notes to the financial statements.

Stress tests are conducted regularly as part of price risk governance strategies for the banking book in order to assess the Group's ability to absorb potential losses resulting from extreme events.

With reference to the equity investments component, the internal measurement system uses, for determining the Internal Capital, a metric borrowed from the Supervisory approach according to the standard method. This method calls for exposures to equity instruments to be assigned a risk weighting factor of 100% or 150% if high risk, unless they need to be deducted from Own Funds. The Own Funds deduction mechanisms according to current supervisory rules (CRD4/CRR) further expand the perimeter of deductions to also include non-significant investments in financial sector entities (<10%) and provide for deduction exemptions. It is worth noting that the most significant portion of the MPS Group's equity investment portfolio is included within the aggregate of significant investments in other financial sector entities (mainly the equity investment in the AXA Group).



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 sensitivity of the Group's economic value⁵⁰, at the end of 2023, was indicative of exposure to rate hike risk. The amount of economic value at risk in the event of a +100 bps parallel shift of the rate curve came to EUR -159.85 mln at the end of 2023 (EUR +78.88 mln for a shift of -100 bps). However, if benchmarked against Own Funds, these values are below the level considered as the attention threshold by the Bank of Italy.

The sensitivity of the Group's net interest income at 1 year (Margin Sensitivity), assuming a 100 bp increase in rates, stood at EUR +107.98 mln at the end of 2023 (EUR -122.50 mln for -100 bp), indicating an exposure to risk in the face of a decline in the interest rate curve.

The internal measurement system is independently developed by the Risk Control Function of the Parent Company, which periodically reports on the extent of portfolio risks and their changes over time. The results are regularly brought to the attention of the Parent Company's Risk Management Committee and governing bodies.

2.2 Price risk

Shown below is a scenario analysis which includes all directional positions assumed by the Group in equity securities and UCITS, measured at fair value (e.g. securities classified as "Financial assets measured at fair value through other comprehensive income" and as "Financial assets mandatorily measured at fair value"):

■ MPS Group: Banking Book

EUR/mln

Risk Family	Scenario	Effect on Net Banking Income and Economic Result	Effect on Net capital	Overall Effect
Equity	+1% Equity Prices (prices, indices)	1.84	2.27	4.11
Equity	+1% Equity Prices (prices, indices)	(1.84)	(2.27)	(4.11)
Equity	+1 point Equity Volatility	0	0	0

The equity investment in the Bank of Italy represents approximately 82% of the effect on the Shareholders' Equity relating to the scenario analysis described above.

⁵⁰ The risk measures in question do not consider the contribution of Monte Paschi Banque S.A.



1.2.3 Foreign exchange risk

Qualitative Information

A. Foreign exchange risk: general aspects, operational processes and measurement methods.

Foreign exchange operations are mainly based on short-term trading, with the systematic balance of the transactions originated by the franchise and the retail banks which automatically feed into the Group's position.

Trading activities, centralised at the Parent Company, are carried out primarily by the Finance, Treasury and Capital Management (FTCM) structure of the CFO Department and, on the forex options segment, by the LCIB Department, with a direct management of the exchange rate risk. Among the Parent Company's foreign subsidiaries, only the Shanghai branch has remained active and has maintained modest forex positions exclusively originated by funds available for commercial purposes. The turnover in cash allocated to CFO Division's portfolios and in derivatives for LCIB Department remained stable in terms of risk, with ongoing and careful use of delegated powers. Foreign currency equity investments are typically financed by funds denominated in the same currency, with no assumption of foreign exchange risk.

For a description of stress tests used in the risk governance strategy on exchange rates and the model applied, please refer to the section "Market risk management model for the Trading Book".



B. Hedging of exchange rate risk

Quantitative Information

1. Breakdown by currency of assets, liabilities and derivatives

31 12 2023

Items	Currencies					
	US dollar	Pound sterling	Yen	Canadian Dollars	Swiss Franc	Other currencies
A. Financial assets	1,163,111	13,799	7,656	4,471	9,855	42,097
A.1 Debt securities	551,470	758	-	-	-	-
A.2 Equity securities	67,193	4,644	886	42	953	5,544
A.3 Loans to banks	136,102	3,346	5,002	3,090	2,327	29,855
A.4 Loans to customers	408,346	5,051	1,768	1,339	6,575	6,698
A.5 Other financial assets	-	-	-	-	-	-
B. Other assets	92,130	1,390	153	220	1,373	5,286
C. Financial liabilities	770,585	12,373	23,101	3,086	2,589	17,140
C.1 Deposits from banks	102,845	1,430	3	658	609	522
C.2 Customer accounts	667,740	10,943	23,098	2,428	1,980	16,618
C.3 Debt securities	-	-	-	-	-	-
C.4 Other financial liabilities	-	-	-	-	-	-
D. Other liabilities	53,424	623	101	1,852	73	10,923
E. Financial derivatives						
- Options						
+ Long positions	56,299	6,307	3	-	-	-
+ Short positions	87,944	-	10,372	-	-	58,328
- Other						
+ Long positions	1,226,395	42,494	34,519	3,158	4,553	100,664
+ Short positions	1,598,547	43,842	8,924	2,009	11,215	33,334
Total assets	2,537,935	63,990	42,331	7,849	15,781	148,047
Total liabilities	2,510,500	56,838	42,498	6,947	13,877	119,725
Difference (+/-)	27,435	7,152	(167)	902	1,904	28,322



2. Internal models and other sensitivity analysis methods

Exchange risk is monitored in terms of VaR and scenario analysis (for the methodology see the paragraph “Market risk management model for the Trading Book”). Shown below is information concerning the Group’s diversified Forex VaR.



The Group’s Forex VaR in 2023 is represented by the Parent Company’s exposure to bonds in foreign currency (USD), mainly in the financial category, recognised under “Financial assets measured at amortised cost”. Forex VaR volatility in 2023, especially in the second quarter, was affected by temporary variations in the exposure of the Trading Book of the LCIB Department, due primarily to activities on foreign exchange EUR/USD derivatives.

At the end of December the Forex VaR came to EUR 0.51 mln, slightly below the average for the year:

■ MPS Group VaR FX 99% 1 day in EUR/mln		
	VaR	Date
End of period	0.51	29/12/2023
Minimum	0.30	28/04/2023
Maximum	1.49	03/10/2023
Average	0.80	

The following scenarios were used for foreign exchange rate simulations:

- +1% for all foreign exchange rates to the Euro;
- -1% for all foreign exchange rates to the Euro;
- +1 point for all volatility surfaces of all foreign exchange rates.

The impact on net interest and other banking income and on net profit (loss) for the year was estimated taking account of positions classified as “Financial assets held for trading” and “Financial assets mandatorily measured at fair value”; market value changes are recognised directly in the income statement. Instead, the effect on equity is estimated with reference to all positions classified as “Financial assets measured at fair value through other comprehensive income” and related fair value hedges (FVH). The total effect is the result of the algebraic sum of the two components. Below is a summary of the scenario analyses.

■ MPS Group: Banking Book

EUR/mln

Risk Family	Scenario	Effect on Net Banking Income and Economic Result	Effect on Net capital	Overall Effect
Forex	+1% FX against EUR	0.38	(0.20)	0.18
Forex	+1% FX against EUR	(0.29)	0.20	(0.09)
Forex	+1 point Forex Volatility	0.25	0.00	0.25



1.3 Derivatives and hedging policies

1.3.1 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 2023				Total 31 12 2022			
	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 agreements	Contracts not subject to Master netting agreements	
1. Debt securities and interest rate	-	220,294,182	4,548,336	-	-	196,363,007	5,615,048	-
a) Options	-	6,114,878	1,284,219	-	-	8,517,332	1,409,676	-
b) Swaps	-	213,994,778	3,076,729	-	-	186,800,123	3,961,407	-
c) Forward	-	-	187,388	-	-	-	243,965	-
d) Futures	-	184,526	-	-	-	1,045,552	-	-
e) Other	-	-	-	-	-	-	-	-
2. Equity securities and stock indices	-	7,025,975	16,093	136,737	-	10,957,183	12,682	187,950
a) Options	-	4,504,097	16,093	122,954	-	7,954,395	12,682	184,854
b) Swaps	-	2,271,760	-	-	-	2,734,810	-	-
c) Forward	-	-	-	-	-	-	-	-
d) Futures	-	250,118	-	13,783	-	267,978	-	3,096
e) Other	-	-	-	-	-	-	-	-
3. Exchange rates and gold	-	120,930	1,542,058	-	-	349,930	2,500,599	-
a) Options	-	44,500	509,261	-	-	153,947	647,434	-
b) Swaps	-	-	-	-	-	-	-	-
c) Forward	-	76,430	1,032,797	-	-	195,983	1,853,165	-
d) Futures	-	-	-	-	-	-	-	-
e) Other	-	-	-	-	-	-	-	-
4. Commodities	-	87,983	183,004	-	-	256,794	369,349	-
5.Other underlying	-	-	-	-	-	-	-	-
Total	-	227,529,070	6,289,491	136,737	-	207,926,914	8,497,678	187,950



A.2 Financial derivatives for trading: gross positive and negative fair value - breakdown by products

Underlying asset/Type of derivative	Total 31 12 2023				Total 31 12 2022			
	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 agreements	Contracts not subject to Master netting agreements	
1. Positive Fair value								
a) Options	-	251,836	9,142	3,255	-	329,105	16,904	8,828
b) Interest rate swap	-	8,562,918	24,306	-	-	10,658,725	20,689	-
c) Cross currency swap	-	-	-	-	-	-	-	-
d) Equity swap	-	39,507	-	-	-	20,327	-	-
e) Forward	-	156	10,104	-	-	7,748	46,627	-
f) Futures	-	218	-	-	-	407	-	-
g) Other	-	2,097	25,839	-	-	9,958	43,527	-
Total	-	8,856,732	69,391	3,255	-	11,026,270	127,747	8,828
2. Negative fair value								
a) Options	-	181,922	51,859	2,848	-	183,275	97,811	3,976
b) Interest rate swap	-	7,367,386	98,442	-	-	9,454,487	179,366	-
c) Cross currency swap	-	-	-	-	-	-	-	-
d) Equity swap	-	19,013	-	-	-	42,174	-	-
e) Forward	-	1,296	13,927	-	-	2,974	20,599	-
f) Futures	-	135	-	-	-	116	-	-
g) Other	-	3,409	24,579	-	-	6,683	55,805	-
Total	-	7,573,161	188,807	2,848	-	9,689,709	353,581	3,976



A.3 Financial OTC derivatives for trading: notional amounts, gross positive and negative fair value by counterparties

31 12 2023

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	134,167	329,493	4,084,676
- positive fair value	X	-	933	24,066
- negative fair value	X	11,560	7,102	132,076
2) Equity securities and stock indices				
- notional value	X	-	14,330	1,763
- positive fair value	X	-	3,343	3
- negative fair value	X	-	-	-
3) Exchange rates and gold				
- notional value	X	170,714	58,271	1,313,074
- positive fair value	X	1,126	1,275	12,806
- negative fair value	X	1,857	-	11,632
4) Commodities				
- notional value	X	846	-	182,159
- positive fair value	X	-	-	25,839
- negative fair value	X	-	-	24,579
5) Other underlying				
Contracts subject to master netting agreements				
1) Debt securities and interest rates				
- notional value	-	63,573,682	154,772,192	1,948,309
- positive fair value	-	2,138,149	6,561,861	60,458
- negative fair value	-	1,873,854	5,330,711	190,415
2) Equity securities and stock indices				
- notional value	-	878,580	6,147,395	-
- positive fair value	-	36,715	56,939	-
- negative fair value	-	21,054	152,072	-
3) Exchange rates and gold				
- notional value	-	25,912	44,891	50,127
- positive fair value	-	21	9	263
- negative fair value	-	417	877	216
4) Commodities				
- notional value	-	-	74,695	13,287
- positive fair value	-	-	218	2,099
- negative fair value	-	-	135	3,410
5) Other underlying				



A.4 Residual life of financial OTC derivatives for trading: notional amounts

Underlying asset/residual life	Up to 1 year	1 to 5 years	Over 5 years	Total
A.1 Financial derivatives on debt securities and interest rates	67,348,888	74,895,457	82,598,173	224,842,518
A.2 Financial derivatives on equity securities and stock indices	4,813,889	2,185,544	42,635	7,042,068
A.3 Financial derivatives on exchange rates and gold	1,561,528	101,460	-	1,662,988
A.4 Financial derivatives on other underlying assets	213,364	57,623	-	270,987
A.5 Other financial derivatives	-	-	-	-
Total 31 12 2023	73,937,669	77,240,084	82,640,808	233,818,561
Total 31 12 2022	67,926,257	75,294,575	73,203,760	216,424,592

B. Credit derivatives

B.1. Credit derivatives for trading: end of period notional amounts

Transaction categories	Trading book	
	single name	with multiple counterparties (basket)
1. Purchases of protection		
a) Credit default products	136,538	50,200
b) Credit spread products	-	-
c) Total rate of return swap	-	-
d) Others	-	-
Total 31 12 2023	136,538	50,200
Total 31 12 2022	96,564	51,000
2. Sales of protection	-	-
a) Credit default products	2,405,174	13,700
b) Credit spread products	-	-
c) Total rate of return swap	-	-
d) Others	-	-
Total 31 12 2023	2,405,174	13,700
Total 31 12 2022	3,358,056	5,000



B.2. OTC credit derivatives: gross positive and negative fair value - breakdown by products

	Total 31 12 2023	Total 31 12 2022
1. Fair value positivo		
a) Credit default products	777	3
b) Credit spread products	-	-
c) Total rate of return swap	-	-
d) Altri	-	-
Total	777	3
2. Fair value negativo		
a) Credit default products	92.797	142.774
b) Credit spread products	-	-
c) Total rate of return swap	-	-
d) Altri	-	-
Total	92.797	142.774

B.3. OTC credit derivatives for trading: notional amounts, gross fair value (positive and negative) by counterparties

31 12 2023

Contracts not subject to netting agreements	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	-	49,774	136,965	-
- positive fair value	-	-	-	-
- negative fair value	-	555	6,290	-
2) Sales of protection				
- notional value	-	-	2,418,874	-
- positive fair value	-	-	777	-
- negative fair value	-	-	85,952	-

**B.4 Residual life of OTC credit derivatives for trading: notional amounts**

Underlying asset/residual life	Up to 1 year	1 to 5 years	Over 5 years	Total
1. Sales of protection	78,280	1,197,558	1,143,036	2,418,874
2. Purchase of protection	18,100	93,639	75,000	186,739
Total 31 12 2023	96,380	1,291,197	1,218,036	2,605,613
Total 31 12 2022	440,739	1,021,732	2,048,149	3,510,620

B.5 Credit derivatives related to the fair value option: annual changes

This table was not drawn up as the Group does not apply the hedge accounting rules pursuant to IFRS 9.

1.3.2 Hedges**Qualitative Information**

The Group, in applying IFRS 9, has exercised the option provided by the standard to continue to fully apply IAS 39 for all types of hedging (micro and macro). Therefore, the provisions of IFRS 9 in terms of hedging do not apply.

A. Fair value hedging

The purpose of interest rate risk hedging is to protect the banking book from changes in the fair value of deposits and loans caused by movements in the interest rate curve or to reduce the variability of cash flows linked to a particular asset/liability.

At Group level, the risk predominantly hedged is the interest rate risk with fair value hedges, for a total of approximately EUR 21,3 bn in nominal amount of hedging derivatives.

The Group uses the following hedges to manage interest rate risk:

- *fair value micro hedges*: hedging of trading assets (loans/mortgage loans), securities portfolio and bonds;
- *macro fair value hedges*: hedging of non-trading assets (loans/mortgage loans) and corporate funding (time deposits).

The fair value hedges at Group level regard both micro hedges of assets and liabilities, identified specifically and represented by government bonds in the Banking Book and bonds issued by the Parent Company, as well as macro hedges (version with bottom layer approach) of retail fixed-rate deposits.

The derivatives used for this purpose are primarily interest rate swaps (IRS) and options on rates realised with third parties or with other companies of the Group which, in return, hedge the market risk so that the requirements for outsourcing hedging with counterparties, necessary to qualify the hedging at the consolidated financial level, are complied with.

Derivatives are not listed in regulated markets, but are traded within the scope of OTC circuits. OTC agreements also include those brokered through Clearing Houses.

B. Cash-flow hedging

Hedging activities carried out by the Group aim at covering exposure to fluctuations in future cash flows, attributable to changes in the interest rate curve, associated with a specific asset, as cash receipt of future floating interests on asset securities

Hedging derivatives for cash flow hedging transactions are mainly interest rate swaps (IRS) and amounted to about EUR 144 mln in nominal value.

The Group adopts only specific hedges (micro cash flow hedge) of floating interest securities.



C. Hedging of foreign investments

The Group does not have any such hedging in place.

D. Hedging instruments

The main sources of ineffectiveness of the model adopted by the Group for checking a hedging relationship are ascribable to the following aspects:

- mismatch between notion amount of the derivatives and the hedge items recognised at the time of initial designation or subsequently generated, as in the case of partial repayments of loans or repurchase of bonds;
- inclusion in the effectiveness test of the value of the variable portion of the hedging derivative, in the hypothesis of “fair value hedge” relationship.

The ineffectiveness of the hedging is promptly recognised for:

- measuring the effect in the income statements;
- evaluate the possibility of continuing to apply the hedge accounting rules.

The Group doesn't apply dynamic hedges rules, as defined by IFRS 7, paragraph 23C.

E. Hedged items

At the Group level, the main types of hedged items are:

- debt securities under assets;
- debt securities issued;
- fixed-rate commercial loans;
- optional component implicit in the floating-rate mortgage loans;
- fixed-rate commercial funding.

E.1 Debt securities under assets

Hedging relationships of these assets are especially of a micro fair value hedge type; derivatives used for this purpose are mainly IRS and the hedged risk is the interest rate risk.

The Dollar Offset Method is used to verify the efficacy of the hedge. This method is based on the relationship between the cumulated changes (from the beginning of the hedging) in the fair value of the hedging instrument, attributable to the hedged risk, and the past changes in the fair value of the hedged item.

The Group currently has active micro cash flow hedging on floating interests securities asset, mainly using IRS as hedging instruments.

The effectiveness assessment method involves prospective and retrospective testing using the methodology of the hypothetical derivative, i.e. comparison of the fair value of the hedging derivative against the fair value of the hypothetical derivative having as a fixed part the same flows as the hedging derivatives and as a variable part the variable flows of the hedged instrument weighted for hedging percentages.

E.2 Debt securities issued

These are securities covered by hedges in the fair value micro hedge category; derivatives used as hedging instruments are primarily IRS. The hedged risk is the interest rate risk.

The Dollar Offset Method is used to verify the efficacy of the hedge. This method is based on the relationship between the cumulated changes (from the beginning of the hedging) in the fair value of the hedging instrument, attributable to the hedged risk, and the past changes in the fair value of the hedged item.



E.3 Fixed-rate commercial loans

In these cases, the hedging relationships in place are of a macro fair value hedge type and the derivatives used as hedging instruments are primarily IRS. The hedged risk is the interest rate risk.

The hedged loan portfolio is open-ended, i.e. it is dynamically made up by fixed interest loans managed, at an aggregated level, through the hedging derivatives entered into over time

The effectiveness of the macro hedging on fixed-rate loans is verified through specific forward- and backward-looking tests aimed at demonstrating that the hedged portfolio contains an amount of assets for which the sensitivity profile and the changes in the fair value for the interest rate risk can be said to match those of the hedging derivatives. It should be noted that for the purpose of the forward- and backward-looking tests, the hedged portfolio takes into account the prepayment estimates, determined on the basis of the model used from time to time to manage interest rate risk.

E.4 Optional component implicit in the floating-rate mortgage loans

The optional components implicit in mortgage loans with floating interest rate are hedged with a fair value macro hedge using, as hedging instruments, cap/floor derivatives.

The effectiveness of the hedging is verified by using the resilience of the capacity test.

E.5 Fixed-rate commercial funding

Fixed-rate commercial funding is subject to hedging relationships in the fair value macro hedge category, mainly through the use of hedging instruments such as IRS derivatives. The hedged risk is the interest rate risk.

The effectiveness of the macro hedges on the commercial funding with fixed interest rate is verified using the Dollar Offset Method. This method is based on the relationship between the cumulated changes (from the beginning of the hedging) in the fair value of the hedging instrument, attributable to the hedged risk, and the past changes in the fair value of the hedged item. The effectiveness is verified through a capacity test that compares the amount of the hedged items and the amount of the hedging instrument.



Other information

Paragraph 24H of IFRS 7, introduced by Regulation no. 34 of 15 January 2020, requires that specific disclosures are provided on the uncertainties deriving from the reform of reference indices for determining interest rates on hedging relationship and the notion value of hedging instruments potentially impacted by the reform of benchmark rates. The table below containing details, by nominal amounts, of the hedging according to the reference index of the interest rates, before offsetting made in accordance with IAS 32.

Interest rate	ASSETS			LIABILITIES		Total
	Nominal hedging			Nominal hedging		
	Micro - FVH	Macro - FVH	Micro - CFH	Micro - FVH	Macro - FVH	
EURIBOR 1M		1,743,037	144,000	750,000	475,992	3,113,029
EURIBOR 3M	156,448	2,290,789		750,000		3,197,237
EURIBOR 6M	4,471,451	7,842,672		1,733,385	300,190	14,347,699
USD LIBOR 3M	350,226					350,226
USD SOFR	50,000					50,000
EURIBOR 30Y CMS	80,097					80,097
ESTR	199,000					199,000
Total	5,307,223	11,876,499	144,000	3,233,385	776,182	21,337,288

The table shows the notional amounts of hedging derivatives inclusive of the netting carried out pursuant to IAS 32.

The Group does not show any significant hedging index-linked to Eonia/Libor, therefore:

- the significant reference index for the Group hedging is the Euribor;
- the risk exposure impacted by the index reform is not substantial;
- the Group has used a regulatory internal document where the actions to be undertaken are described in the case of a substantial change to, or discontinuation of an index;
- the Group has set out a specific project intervention regarding the reform of financial indexes and the transition to new risk-free rates, and it monitors any regulatory changes;
- in view of the transition to the new risk-free rates, in 2021 the Group adjusted all hedging derivatives to the new Euro short-term rate (€ str) curve.

On 30 June 2023 the publication of the USD LIBOR stopped, therefore the Group commitment was to intensify negotiation with its counterparties, aimed to reduce the stock of relationship still indexed to stopped rates and to switch to SOFR indices. In detail the switch to fallback SOFR curve was made through the use of contractual clauses (*fallback*)⁵¹ indicating an alternative reference rate, built starting from the SOFR curve added specific spreads for each pillar. The name of the index specifically created for this purpose is USD 3M LIBOR FALLBACK SOFR.

At the date of these financial statements, doesn't exist derivative contracts designated in an hedging relationship indexed to the rates involved in the Reform.

⁵¹ The regulation to manage this transition are the following protocols: ISDA 2020 IBOR Fallback and ISDA 2021 IBOR Collateral Agreement fallback.



Quantitative Information

A. Financial hedging derivatives

A.1 Financial hedging derivatives: end of period notional amounts

Underlying asset/Type of derivative	Total 31 12 2023				Total 31 12 2022			
	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 agreements	Contracts not subject to master netting agreements	
1. Debt securities and interest rate	-	21,298,226	-	-	-	24,374,350	-	-
a) Options	-	3,971,432	-	-	-	5,063,368	-	-
b) Swaps	-	17,326,794	-	-	-	19,310,982	-	-
c) Forward	-	-	-	-	-	-	-	-
d) Futures	-	-	-	-	-	-	-	-
e) Other	-	-	-	-	-	-	-	-
2. Equity securities and stock indices	-	-	-	-	-	-	-	-
a) Options	-	-	-	-	-	-	-	-
b) Swaps	-	-	-	-	-	-	-	-
c) Forward	-	-	-	-	-	-	-	-
d) Futures	-	-	-	-	-	-	-	-
e) Other	-	-	-	-	-	-	-	-
3. Exchange rates and gold	-	350,226	-	-	-	362,835	-	-
a) Options	-	-	-	-	-	-	-	-
b) Swaps	-	350,226	-	-	-	362,835	-	-
c) Forward	-	-	-	-	-	-	-	-
d) Futures	-	-	-	-	-	-	-	-
e) Other	-	-	-	-	-	-	-	-
4. Commodities	-	-	-	-	-	-	-	-
5.Other underlying	-	-	-	-	-	-	-	-
Total	-	21,648,452	-	-	-	24,737,185	-	-



A.2 Financial hedging derivatives: gross positive and negative fair value - breakdown by products

Underlying asset/Type of derivative	Total 31 12 2023				Total 31 12 2023			
	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 agreements	Contracts not subject to master netting agreements	
1. Positive fair value								
a) Options	-	12,785	-	-	-	37,182	-	-
b) Interest rate swap	-	998,597	-	-	-	1,469,874	-	-
c) Cross currency swap	-	-	-	-	-	-	-	-
d) Equity swap	-	-	-	-	-	-	-	-
e) Forward	-	-	-	-	-	-	-	-
f) Futures	-	-	-	-	-	-	-	-
g) others	-	-	-	-	-	-	-	-
Total	-	1,011,382	-	-	-	1,507,056	-	-
2. Negative fair value								
a) Opzioni	-	33,509	-	-	-	17,576	-	-
b) Interest rate swap	-	593,369	-	-	-	717,735	-	-
c) Cross currency swap	-	42,905	-	-	-	54,861	-	-
d) Equity swap	-	-	-	-	-	-	-	-
e) Forward	-	-	-	-	-	-	-	-
f) Futures	-	-	-	-	-	-	-	-
g) Others	-	-	-	-	-	-	-	-
Total	-	669,783	-	-	-	790,172	-	-

A.3 Financial OTC hedging derivatives: notional amounts, gross positive and negative fair value by counterparties

31 12 2023

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				
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	-	20,426,761	871,465	-
- positive fair value	-	971,396	39,987	-
- negative fair value	-	523,208	103,670	-
2) Equity securities and stock indices				
3) Exchange rates and gold				
- notional value	-	350,226	-	-
- positive fair value	-	-	-	-
- negative fair value	-	42,905	-	-
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	1,946,406	4,902,199	14,449,621	21,298,226
A.2 Financial derivatives on equity securities and stock indices	-	-	-	-
A.3 Financial derivatives on exchange rates and gold	350,226	-	-	350,226
A.4 Financial derivatives on other underlying assets	-	-	-	-
A.5 Other financial derivatives				
Total 31 12 2023	2,296,632	4,902,199	14,449,621	21,648,452
Total 31 12 2022	3,873,476	7,982,018	12,881,690	24,737,184

B. Credit hedging derivatives

B.1 Credit hedging derivatives: end of period notional amounts

B.2 Credit hedging derivatives: gross positive and negative fair value - breakdown by products

B.3 OTC credit hedging derivatives: notional amounts, gross positive and negative fair value by counterparties

B.4 Residual life of OTC credit hedging derivatives: notional amounts

The table above was not completed as the Group had no outstanding credit hedging derivatives for either the current or the previous year.

C. Non-derivative hedging instruments

C.1 Hedging instruments other than derivatives: breakdown by accounting portfolio and type of hedging

D. Hedged instruments

D.1 Fair value hedging

D.2 Cash-flow and foreign investment hedging

E. Effects of hedging transactions on equity

E.1. Reconciliation of equity items

The tables for Sections C, D and E were not completed, as the Group exercised the option, envisaged on first-time application of IFRS 9, to continue to use, as regards “hedge accounting”, the provisions of IAS 39.



1.3.3 Other information on derivatives (trading and hedging)

A. Financial and credit derivatives

A.1 OTC financial and credit derivatives: net fair values by counterparties

31.12.2023

Underlying assets	Central counterparties	Banks	Other financial companies	Other entities
A. Financial derivatives				
1. Debt securities and interest rates				
- notional value	-	70,055,245	143,896,682	-
- positive fair value	-	692,350	506,861	-
- negative fair value	-	-	-	-
2. Equity securities and stock indices				
- notional value	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-
3. Exchange rates and gold				
- notional value	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-
4) Commodities				
- notional value	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-
4. Other underlying				
- notional value	-	-	4,243,640	-
- positive fair value	-	-	4,759	-
- negative fair value	-	-	-	-
B. Credit derivatives				
1. Purchase of protection				
- notional value	-	-	68,425	-
- positive fair value	-	-	-	-
- negative fair value	-	-	55	-
2. Sales of protection				
- notional value	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-

The table shows the positive or negative fair values of the derivatives subject to offsetting pursuant to IAS 32.42.



1.4 - Liquidity risk

Qualitative Information

A. Liquidity risk: general aspects, operational processes and measurement methods

In 2023, the Montepaschi Group continued to strengthen and streamline its strategic and operational liquidity risk management processes, paying particular attention to, inter alia, the analysis of risk factors related to climate and environmental changes and their possible impact on the Group's liquidity situation.

Group Liquidity Risk Framework

The Montepaschi Group has used a Liquidity Risk Framework for many years now, intended as the set of tools, methodologies, organisational and governance set-ups which ensures both compliance with national and international regulations and adequate liquidity risk governance in the short (Operating Liquidity) and medium/long (Structural Liquidity) term, under business as usual and stress conditions.

The reference Liquidity Risk model for the Montepaschi Group is “centralised” and calls for the management of short-term liquidity reserves and medium/long-term financial balance at Parent Company level, guaranteeing solvency on a consolidated and individual basis for the subsidiaries.

The internal assessment of liquidity adequacy is a process that is part of the more general Risk Management macro-process, in direct connection with the Risk Appetite Framework (RAF) through the annual formulation of the Risk Appetite Statement (RAS) with related thresholds.

The overall internal liquidity adequacy assessment takes place periodically as part of the strategic ILAAP (Internal Liquidity Adequacy Assessment Process) process consisting mainly of:

- ILAAP Outcomes, or quantitative (inherent risk) and qualitative (risk management and controls) assessments on risk positioning prepared by the Risk Control function and submitted to the Board of Directors, the document accompanied by the so-called Liquidity Adequacy Statement (LAS), i.e., the summary statement of the Board of Directors which expresses its vision and awareness for the purposes of liquidity adequacy management.
- ILAAP ongoing, which consists substantially of periodical analyses of liquidity adequacy which are described in reports to the corporate bodies.

Liquidity Risk Management

The management of the Group's **Operational Liquidity** aims at ensuring the capacity of the Montepaschi Group to meet the cash payment obligations within a short-term time frame. The essential condition for a normal course of business in banking is the maintenance of a sustainable imbalance between cash inflows and outflows in the short term. From the operational perspective, the benchmark metric in this respect is the difference between net cumulative cash flows and Counterbalancing Capacity, i.e. the reserve of liquidity in response to stress conditions over a short time horizon, in addition to the Liquidity Coverage Ratio (LCR) regulatory measure - Delegated Act. From the extremely short-term perspective, the Group adopts a system for the analysis and monitoring of intraday liquidity, with the goal of ensuring normal development during the day of the bank's treasury and its capacity to meet its intraday payment commitments.

Management of the Group's **Structural Liquidity** is intended to ensure the structural financial balance by maturity buckets over a time horizon of more than one year, both at Group and individual company level. Maintenance of an adequate dynamic ratio between medium/long-term assets and liabilities is aimed at preventing current and prospective short-term funding sources from being under pressure. In addition to the regulatory measure of the Net Stable Funding Ratio (NSFR), set forth in the so-called CRR2⁵² the benchmark metrics are gap ratios which measure the ratio of total deposits and loans over more-than-1-year and more-than-5-year maturity deposits and the ratio of loans to retail/corporate deposits. The Montepaschi Group also defined and formalised:

- the asset encumbrance management and monitoring framework with the goal of analysing:
 - the overall degree of encumbrance of total assets;

⁵² Regulation (EU) 2019/876 of the European Parliament and of the Council of 20 May 2019 amending Regulation (EU) no. 575/2013 with regard to leverage ratio, net stable funding ratio, own funds and eligible liabilities requirements, counterparty risk, market risk, exposures to central counterparties, exposures to collective investment undertakings, large exposures, reporting and disclosure requirements and Regulation (EU) no. 648/2012.



- the existence of a sufficient quantity of assets that may be encumbered but which are free;
- the Montepaschi Group's capacity to transform bank assets into eligible assets (or in an equivalent manner, to encumber non-eligible assets in bilateral transactions);

and

- the monitoring framework of the Concentration Risk, with the goal of analysing:
 - the concentration of the funding sources, by counterparty and by type of channel;
 - the concentration of the assets composing the liquidity reserves of the Montepaschi Group.

The liquidity position is monitored under business-as-usual conditions and under specific, system-wide and/or combined stress scenarios (with adverse and extreme intensity) according to the Liquidity Stress Test Framework. The purposes of these exercises are:

- to show, in a timely manner, the main Montepaschi Group's vulnerability to liquidity risk;
- to calculate the survival time frame of the Montepaschi Group under stress conditions;
- to enable a prudential determination of surveillance levels, to be applied to the Liquidity Risk measurement metrics within the scope of the annual Risk Appetite Statement.

Within the scope of Risk Appetite Framework, the Liquidity Risk Framework identifies the tolerance thresholds for liquidity risk, that is to say the maximum risk exposure deemed sustainable in a business-as-usual scenario and under stress conditions. The short/medium and long-term liquidity risk limits derive from the setting of these risk appetite thresholds.

The system of operating limits, known as Liquidity Risk Limits, is defined so as to make it possible to promptly identify approaches to the risk tolerance threshold as defined in the annual Risk Appetite Statement process.

In order to immediately identify the emergence of vulnerabilities in the liquidity's position, the Montepaschi Group has developed a range of Early Warnings, classified as generic or specific depending on whether the individual indicator is designed to detect potential vulnerabilities in the overall economic context of reference or in the Montepaschi Group structure.

With specific reference to climatic and environmental risk factors, the materiality analysis carried out led to quantifying them as non-material, by reason of the low impact in terms of cash outflows on customer deposits from the physical events analysed, namely landslides and floods.

Group's Liquidity Management

Operating and Structural Liquidity management is governed by the Parent Company's Liquidity Management Department, which is responsible for defining and implementing funding strategies in the short and medium/long-term.

With reference to the management of operating liquidity, the Liquidity Management Function manages the Montepaschi Group's "liquidity reserves" so as to guarantee the Bank's capacity to deal with expected and unexpected outflows, to that end making recourse to various interbank market instruments (unsecured deposits, collateralised deposits, repos) as well as transactions with the Central Bank.

With reference to the management of Structural Liquidity, the Liquidity Management Function pursues the objectives detailed in the annual Funding Plan, which operationally implements the medium-long term strategies defined in the "Liquidity and Funding Strategy". The Group's Liquidity and Funding Strategy defines the funding activity guidelines of the Montepaschi Group in terms of risk appetite, with a multi-year time horizon, in compliance with the long-term risk tolerance thresholds on operating and structural liquidity indicators, internal and regulatory, defined within the Group's Risk Appetite Statement (RAS).

In addition, to complete the Funding Plan, Liquidity Management prepares the Contingency Funding Plan, which represents the operational tool for liquidity risk management intended to define intervention strategies in the case of liquidity tensions, laying out procedures and actions that may be promptly activated to obtain sources of funds in a stress scenario.



Liquidity position: regulatory indicators

The Montepaschi Group uses the following main indicators to assess its liquidity profile:

- *Liquidity Coverage Ratio (LCR)*, which is the short-term liquidity indicator corresponding to the ratio between the amount of high quality liquid assets and the total net cash outflows in the subsequent 30 calendar days. Starting from 2018, the indicator must comply with a minimum regulatory requirement of 100% and is subject to supervisory reporting on a monthly basis;
- *Net Stable Funding Ratio (NSFR)*, which is the structural 12-month liquidity indicator corresponding to the ratio between the available stable funding amount and the compulsory stable funding amount. This indicator, whose regulatory minimum requirement is 100% (starting with the reporting as at 30 June 2021), is subject to supervisory reporting on a quarterly basis;
- *Loan to Deposit Ratio*, representing the ratio between loans to customers and direct funding, excluding transactions with central counterparties.

Following are the three indicators in the reporting financial year compared with the previous financial year:

	Regulatory requirement	31 12 2023	31 12 2022
LCR	100%	163,3%	192,3%
NSFR	100%	130,1%	134,1%
<i>Loan to Deposit Ratio*</i>	n.a.	84,7	93,0

In general, the trend of the regulatory liquidity indicators during 2023 was mainly affected by the expiry of the TLTRO III auctions, only partially replaced by MRO and LTRO auctions (the total amount of refinancing with the ECB was reduced from EUR 19,500.0 mln to EUR 13,000.0 mln, of which EUR 5,500.0 mln for TLTRO III).

The short-term liquidity indicator, the Liquidity Coverage Ratio (LCR), as at 31 December 2023, was 163.3%, which is higher than the applicable minimum regulatory requirement for 2023 and lower than in December 2022 (192.3%).

The medium/long-term liquidity indicator, the Net Stable Funding Ratio (NSFR), was 130.1% as at 31 December 2023, higher than the minimum regulatory requirement for 2023, and down from December 2022 (134.1%).

As at 31 December 2023, the operating liquidity position showed an unencumbered counterbalancing capacity level of EUR 29,799.5 mln, up compared to 31 December 2022 (EUR 25,500.6 mln).

Given that institutional maturities were fairly irrelevant, represented by EUR 219.0 mln of bilateral funding and a starting position of excess liquidity, the Funding Plan 2023 provided for a return to public covered issues and public senior issues; the latter, in particular, were planned in order to meet the MREL targets which, as of 1 January 2022, became binding for the banking system.

The amounts of public issues were periodically reviewed during the year, based on the actual liquidity position and taking into account the trend in RWA and Leverage Exposure, which are the determinant factors for achieving the MREL targets. In particular, given the solid liquidity position and a better than expected RWA and profitability trend, the issues made in 2023 were progressively reduced to a total of EUR 1,250.0 mln, while complying with all the MREL targets (the “binding” target from 1 January 2022 and the “non-binding” target of 1 January 2023).



Quantitative Information

The time distribution of financial assets and liabilities is showed in the following tables according to the rules set out in the financial statement regulations issued by Bank of Italy (Circular 262) and related clarifications issue by the Supervisory Authority, using accounting information on residual contractual duration. Managerial data, i.e. modelling of on-balance sheet liabilities or the presentation of cash items according with their liquidity degrees, are not been used.

1. Breakdown of financial assets and liabilities by residual contractual duration - Currency: Euro

31.12.2023

Account	On demand	1 to 7 days	7 to 15 days	15 days to 1 month	1 to 3 month	3 to 6 month	6 month to 1 year	1 to 5 years	Over 5 years	Unspecified maturity
Balance-sheet assets	23,076,814	5,458,538	1,138,968	1,882,210	4,447,936	5,649,761	7,187,548	26,057,234	37,571,248	503,297
A.1 Government securities	-	3,336	364,511	145,021	377,282	809,093	1,447,442	4,411,132	6,086,942	-
A.2 Other debt securities	118,899	7	527	3,387	47,142	148,471	96,611	624,945	2,538,814	3,431
A.3 Units of UCITS	230,337	-	-	-	13	-	-	-	-	-
A.4 Loans	22,727,578	5,455,195	773,930	1,733,802	4,023,499	4,692,197	5,643,495	21,021,157	28,945,492	499,866
- Banks	14,947,023	132,062	182,503	255,185	183,283	60,576	237,178	52,291	31,877	494,268
- Customers	7,780,554	5,323,133	591,428	1,478,616	3,840,216	4,631,621	5,406,317	20,968,866	28,913,614	5,598
Balance-sheet liabilities	69,027,507	12,837,767	209,038	1,642,768	5,250,348	3,973,561	4,497,301	7,388,646	1,781,834	-
B.1 Deposits and current accounts	65,061,748	71,829	86,135	208,746	593,254	646,472	1,808,626	1,119,942	-	-
- Banks	185,774	-	-	-	-	-	-	-	-	-
- Customers	64,875,974	71,829	86,135	208,746	593,254	646,472	1,808,626	1,119,942	-	-
B.2 Debt securities	135,011	20	25	1,129,758	50,851	8,174	2,276,504	5,714,499	1,255,926	-
B.3 Other liabilities	3,830,748	12,765,918	122,878	304,264	4,606,243	3,318,915	412,171	554,205	525,908	-
Off-balance-sheet transactions										
C.1 Financial derivatives with exchange of principal										
- long positions	35,300	1,725,006	41,160	713,047	1,237,473	501,259	480,158	631,584	216,889	-
- short positions	123,400	2,364,460	7,523	161,723	920,435	333,394	291,567	556,701	800,033	-
C.2 Financial derivatives without exchange of principal										
- long positions	8,600,501	6	-	21,718	37,746	43,093	67,065	-	-	-
- short positions	7,471,917	11,614	18,195	10,027	16,214	38,979	77,726	-	-	-
C.3 Deposits and borrowings to be received										
- long positions	-	18,524,995	-	-	-	-	-	-	-	-
- short positions	-	18,524,995	-	-	-	-	-	-	-	-
C.4 Irrevocable commitments to disburse funds										
- long positions	146,619	8,163,274	87,787	98,980	-	153,337	16,084	280,417	824,020	-
- short positions	1,267,140	8,503,378	-	-	-	-	-	-	-	-
C.5 Financial guarantees given	5,483	7	34	2,077	524	944	3,012	4,595	490	-
C.6 Financial guarantees received	-	-	-	-	-	-	-	-	-	-
C.7 Credit derivatives with exchange of principal										
- long positions	-	-	-	-	-	6,876	71,404	1,183,858	1,218,036	-
- short positions	-	-	-	-	-	6,876	71,404	1,183,858	1,218,036	-
C.8 Credit derivatives without exchange of principal										
- long positions	777	-	-	-	-	-	-	-	-	-
- short positions	829	-	-	-	-	-	-	-	-	-



2. Breakdown of financial assets and liabilities by residual contractual duration - Currency: Other

31 12 2023

Account	On demand	1 to 7 days	7 to 15 days	15 days to 1 month	1 to 3 month	3 to 6 month	6 month to 1 year	1 to 5 years	Over 5 years	Unspecified maturity
Balance-sheet assets	217,257	42,178	41,179	69,042	220,418	95,563	67,553	92,611	610,902	3,116
A.1 Government securities	-	-	-	-	53	1,845	1,374	1,441	67,010	-
A.2 Other debt securities	6	-	2,207	965	16,723	24,850	42,145	85,426	543,671	-
A.3 Units of UCITS	55,702	-	-	-	-	-	-	-	-	-
A.4 Loans	161,549	42,178	38,972	68,077	203,642	68,868	24,034	5,744	221	3,116
- Banks	88,206	24,513	9,110	9,146	12,648	22,752	12,407	1,187	-	-
- Customers	73,343	17,665	29,862	58,931	190,994	46,116	11,628	4,556	221	3,116
Balance-sheet liabilities	748,313	4,211	30,941	1,059	17,484	24,578	2,285	-	-	-
B.1 Deposits and current accounts	737,606	4,211	30,941	1,059	17,484	24,578	2,285	-	-	-
- Banks	104,648	-	-	-	-	-	-	-	-	-
- Customers	632,958	4,211	30,941	1,059	17,484	24,578	2,285	-	-	-
B.2 Debt securities	-	-	-	-	-	-	-	-	-	-
B.3 Other liabilities	10,707	-	-	-	-	-	-	-	-	-
Off-balance-sheet transactions										
C.1 Financial derivatives with exchange of principal										
- long positions	-	1,056,127	3,913	42,450	135,591	99,961	91,635	24,061	-	-
- short positions	13,575	600,542	11,205	168,710	671,504	141,698	132,327	12,345	-	-
C.2 Financial derivatives without exchange of principal										
- long positions	52,284	-	-	-	-	-	-	-	-	-
- short positions	45,271	-	-	-	-	-	-	-	-	-
C.3 Deposits and borrowings to be received										
- long positions	-	-	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-	-	-
C.4 Irrevocable commitments to disburse funds										
- long positions	-	-	-	240	270	487	-	-	-	-
- short positions	997	-	-	-	-	-	-	-	-	-
C.5 Financial guarantees given	48	-	-	11	2	-	249	-	-	-
C.6 Financial guarantees received	-	-	-	-	-	-	-	-	-	-
C.7 Credit derivatives with exchange of principal										
- long positions	-	-	-	-	-	4,525	13,575	43,439	-	-
- short positions	-	-	-	-	-	4,525	13,575	43,439	-	-
C.8 Credit derivatives without exchange of principal										
- long positions	-	-	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-	-	-



Self-securitisations

The securitisation transactions whereby the Group underwrites securities issued by special purpose vehicles (self-securitisations) or for which only securities fully subscribed by the Group remained outstanding, are not shown in the tables of Part E of the Notes to the Financial Statements, section “C. Securitisation and asset disposal transactions”, but in this paragraph, pursuant to the provisions of Bank of Italy Circular 262.

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 Group’s direct and full underwriting of the notes issued by the vehicles does not make it possible to obtain direct liquidity from the market, it still provides the Group with securities that could be used for ECB refinancing (limited to the senior tranches as ECB eligible) and for purchase agreements by increasing the availability of disposable assets, thus improving the MPS Group safety margin against liquidity risk (counterbalancing capacity). These 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 2023, this category includes the self-securitisations completed in December 2007 (Siena Mortgages 07-5), April 2008 (Siena Mortgages 07-5 II series), April 2019 (Siena PMI 2016 Series 2).⁵³ It should be noted that, in the first half of 2023, the Group completed the early closing of the Siena Lease 2016-2 securitisations (originated by the former subsidiary MPS Leasing & Factoring) and Siena Mortgages 09-6 Series 1 with the consequent repurchase of the residual portfolios.

Siena Mortgages 07-5, I and II series

On 21 December 2007, the Group, through the special purpose vehicle Siena Mortgages 07-5 S.p.A., has finalised a securitisation of performing loans consisting of a portfolio of 57,968 residential mortgage loans for a total of EUR 5,162.4 mln, of which a balance of EUR 564.5 mln (12,599 mortgage loans) outstanding as at 31 December 2023.

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 2023:

- Class A notes (Aa3 and AA-) for a nominal amount of EUR 4,765.9 mln, of which EUR 4,613 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.

At the same time as the securities listed above, the special purpose vehicle also issued class D securities for an initial amount of EUR 124.0 mln, the proceeds of which were partly allocated to the establishment of a cash reserve. The target level of the cash reserve was gradually reduced based on the performance of the transaction: as at 31 December 2023, this reserve amounted to EUR 31.5 mln. The Class D notes were redeemed until reaching the 10% threshold (EUR 12.4 mln).

Through the same special purpose vehicle (Siena Mortgages 07-5 S.p.A.), on 24 April 2008 a second transaction was finalised (Siena Mortgages 07-5 series 2), collateralised by a separate pool of assets consisting of an additional sale of a portfolio of performing loans composed of 41,888 residential mortgage loans for a total of EUR 3,416.0 mln and with a residual life of about 20 years.

As at 31 December 2023, this portfolio had a residual debt of EUR 432.9 mln (7,578 mortgages).

In order to fund acquisition of the loans, the Vehicle issued RMBS notes in the following classes, rated by Moody’s and Fitch as at 31 December 2023:

- Class A notes (Aa3 and A+) for a pair value of EUR 3,129.4 mln, of which EUR 2,995 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.

⁵³ The Siena PMI 2016 Series 2 transaction, following redemption of the securities placed on the market, became a self-securitisation in 2022 since the outstanding securities were entirely underwritten by the Parent Company.



At the same time as the securities listed above, the vehicle also issued class D securities for an initial amount of EUR 82.1 mln, the proceeds of which were partly allocated to the establishment of a cash reserve. The target level of the cash reserve was gradually reduced based on the performance of the transaction: as at 31 December 2023, this reserve amounted to EUR 19.8 mln. The Class D notes were redeemed until reaching the 10% threshold (EUR 8.2 mln).

Siena Mortgages 09-6, I series

It should be noted that the Group, in February 2023, authorised the completion of the early closing of the Siena Mortgages 09 6 securitisation with the consequent repurchase of the residual portfolio.

Siena PMI 2016 Series 2

In 2019 a securitisation was finalised through the vehicle Siena PMI 2016 Srl. The Parent Company finalised a securitisation transaction of a portfolio of performing loan agreements granted to Italian small to medium sized enterprises, in the amount of EUR 2,258.4 mln. As at 31 December 2023, the remaining debt was EUR 448.6 mln, for a total of 4,541 loan agreements.

To fund the acquisition of the portfolio sold, on 19 June 2019 the SPV issued asset-backed securities (ABS) in the following classes, rated by Fitch and DBRS as at 31 December 2023 as follows:

- (i) Class A1 notes for a nominal amount of EUR 519.4 mln, redeemed in full;
- (ii) Class A2 notes for a nominal amount of EUR 813.0 mln, redeemed in full;
- (iii) Class B notes for a nominal amount of EUR 225.8 mln, redeemed in full;
- (iv) Class C notes (AA and AAA) for a pair value of EUR 271.0 mln, of which EUR 218.8 mln redeemed;
- (v) Class D notes (BBB+ and BBB) for a pair value of EUR 248.5 mln;
- (vi) Class J notes (not rated) for a nominal amount of EUR 180.7 mln.

The Class A2 notes were placed with institutional investors for a total of EUR 720 mln; the remaining senior notes, together with the mezzanine and junior notes, were instead underwritten by the Parent Company.

The partial sale of the Class A2 notes on the market did not entail the derecognition of the underlying assets from the balance sheet of the assignor bank, which had substantially retained all risks and benefits associated with the ownership of the assets sold. Following the full repayment of that class in 2022, the transaction was reclassified from “Own securitisation without derecognition” to self-securitisation.



1.5 – Operational risk

Qualitative Information

A. Operational risk: general aspects, operational processes and measurement methods

General aspects and Framework structure

By an administrative ruling dated 12 June 2008, the Bank of Italy authorised the Group to use internal models for the determination of capital requirements for credit and operational risks.

The adoption of the advanced model (AMA) calls for banks to:

1. adopt an internal organisation which defines the roles of the corporate bodies and functions involved in the risk management process;
2. establish a control function for data gathering and storing, capital requirement calculation, risk profile assessment and reporting;
3. perform ongoing checks on the quality of the management system and its compliance with regulatory provisions;
4. delegate the internal auditing body to perform periodic audits on the operational risk management system;
5. guarantee over time that the system is actually used by the corporate management (use test).

For this purpose, the Group has adopted an integrated system for operational risk management, i.e. an internal framework built around a governance model that involves all companies included in the AMA model scope of application. The approach defines the standards, methods and instruments that make it possible to measure risk exposure and the effects of mitigation by business area.

The advanced approach is designed to integrate all major qualitative and quantitative (LDA-Scenario mixed model) information sources (information or data).

The quantitative Loss Distribution Approach (LDA) component is based on the collection, analysis and statistical modelling of internal and external time series of loss data (the latter supplied by the Italian Database of Operational Losses, DIPO).

The qualitative component focuses on the evaluation of the risk profile of each unit and is based on the identification of relevant scenarios. In this framework, the companies included in the AMA scope area are involved in the: identification of the processes and risks to be assessed; assessment of risks by process managers in charge; identification of possible mitigation plans; discussion of priorities and technical-economic feasibility of mitigating actions with Head Office functions.

Next is a phase for monitoring progress on the implementation of actions scheduled and compliance with objectives and deadlines.

The Framework identifies the Group Risk Management function as the operational risk control function.

The aforementioned function calculates the capital required to hedge operational risks by the use of different components of the model (internal data, external data, contextual and control factors, qualitative analyses), supports decision-making by Top Management from the standpoint of creating value by containment, mitigation and transfer of the risks detected, and as it does for other companies included in the scope, it gathers internal loss data and identifies the risks to be evaluated in qualitative analyses.

The advanced approach is used for the Parent Company, while the basic methods are adopted for the remaining Group companies. As at 31 December 2023 internal model coverage in terms of the relevant indicator exceeded 90%.

The Risk Management function has also set up a reporting system which ensures timely information on operational risks for the Top Management, which transposes the strategic principles of the management system into specific operating policies. Reports are regularly submitted to the Risk Management Committee and corporate bodies.

Over time, the adoption of the AMA model has ensured better-informed management of operational risk, guaranteeing a material progressive reduction of the Group's operational risk.

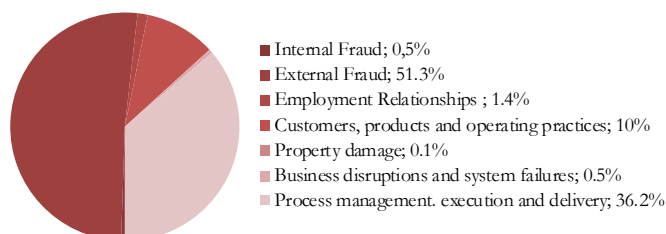
As of 30 June 2017, the Advanced Measurement Model was changed to increase the historical depth of internal loss data from 5 to 10 years and to introduce the scaling of external data in order to discourage unexpected requirement fluctuations.



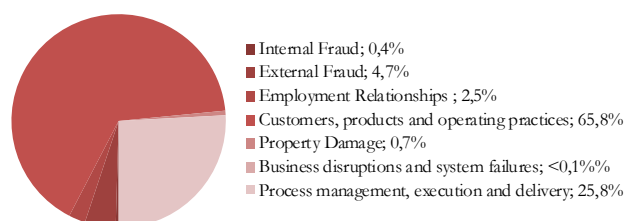
Quantitative Information

The following table shows the percentage distribution of the number of new events and operating losses recognised in 2023, net of the accounting treatment made during the year on events recognised in previous years, broken down into the various risk classes:

Events breakdown
Montepaschi Group - 31 12 2023



Losses breakdown
Montepaschi Group - 31 12 2023



As at 31 December 2023, the number of operational risk events and the operating losses are decreasing compared to December 2022.

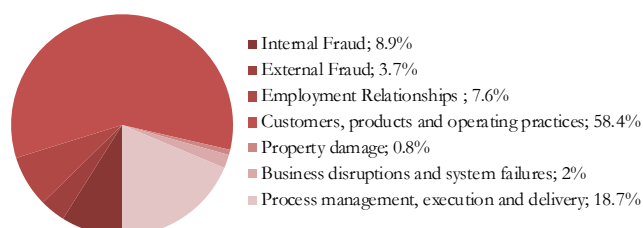
The types of event with the greatest impact on the income statement remain attributable to non-fulfilment of professional obligations with customers (under “Customers, products and operating practices”: approximately 66% of the total) and operational and process management shortfalls (under “Process management, execution and delivery”: around 26%).

With regard to breaches of professional obligations towards customers, the events mainly refer to disputes over derivative transactions and over the application of compound interest.

The graph below shows the breakdown of the regulatory requirement by risk class within the AMA scope:

**Regulatory Capital Requirements**

Montepaschi Group - 31 12 2023



The Regulatory Requirement as at 31 December 2023 was lower than the December 2022 requirement as a result of an update of the internal loss time series, which resulted in the release of significant loss events due to the 2008-11 and 2014-15 capital increases and as a result of the reduction in operating losses recognised in the year compared to the previous year.

The breakdown of operating losses recognised in the period differs from the breakdown of the requirement in that the latter is calculated using a 10-year historical series of internal and external losses, and was predominantly due to the unexpected loss component.



Main types of legal, employment and tax risks

The following were pending as at 31 December 2023:

- legal proceedings with relief sought, where quantified, totalling EUR 3,633.1 mln;
- out-of-court claims with relief sought, where quantified, totalling EUR 63.0 mln;
- risks associated with contractual guarantees with relief sought, where quantified, of EUR 306.9 mln.

These amounts, in accordance with IAS 37, include all disputes, out-of-court claims and contractual risks for which the risk of disbursement of economic resources deriving from potential loss has been assessed as possible or likely and, therefore, does not include disputes for which the risk has been assessed as remote. The aforementioned risks were specifically and carefully analysed by the Group, particularly in the presence of a likely risk gradient and if a reliable estimate of the relative amount could be made, and specific and appropriate provisions were allocated to the Provision for Risks and Charges. Without prejudice to the risk of uncertainty that characterises every dispute, the estimate of the obligations that could emerge from the disputes - and therefore the amount of any provisions made - derives from the forecast assessments regarding the outcome of the proceedings.

These forward-looking assessments are in any case carried out on the basis of the information available at the time of the estimate. As indicated in the paragraphs “Accounting policies and Use of estimates and assumptions when preparing the financial statements”, to which reference is made, the complexity of the situations and corporate transactions forming the basis of the disputes imply significant elements of proceedings that could affect the if, how much and related materialisation timing of the liability. In this regard, therefore, although the Group’s estimates are considered robust, reliable and compliant with the dictates of reference accounting standards, it cannot be excluded that charges arising on final settlement of the disputes may prove different, even significantly, from those allocated. The above aggregate includes:

1. Legal disputes and out-of-court claims

The following were pending as at 31 December 2023:

- o legal disputes with a total relief sought, where quantified, of EUR 3,528.3 mln, of which approximately EUR 1,645.8 mln as relief sought relating to disputes classified as a “likely” risk, for which provisions for EUR 447.0 mln are recognised and approximately EUR 1,882.5 mln as relief sought attributed to disputes classified as having “possible” risk;
- o out-of-court claims for a total relief sought, where quantified, of approximately EUR 63.0 mln, of which approximately EUR 47.7 mln classified as a “likely” risk and approximately EUR 15.3 mln with a “possible” risk.

The disputes of greatest relevance by macro-category or individually are illustrated below.

Disputes regarding compound interest, interest rates and conditions

The total relief sought in these disputes as at 31 December 2023 amounted to EUR 227.7 mln (EUR 246.9 mln as at 31 December 2022), while the allocated provisions amounted to EUR 97.9 mln (down from the provision of EUR 112.6 mln as at 31 December 2022).

Dispute regarding claw-back actions in insolvency proceedings

The total relief sought in these disputes as at 31 December 2023 was EUR 52.6 mln (EUR 62.3 mln as at 31 December 2022), while the allocated provisions amounted to EUR 17.0 mln (up from the provision of EUR 15.5 mln outstanding as at 31 December 2022).

Dispute with purchasers of subordinated bonds issued by Group companies

Following the burden-sharing plan implemented in 2017 in application of Italian 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 Parent Company, 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 Parent Company must comply as a financial intermediary.

This dispute is primarily related to investments in Lower Tier II bonds; indeed, in the majority of the cases the investors had their securities converted into ordinary shares pursuant to the law, without being able to benefit from



the public offering for settlement and exchange promoted by the Parent Company pursuant to Decree no. 237/2016 (so-called Burden Sharing Decree) intended solely for retail investors.

However, for the sake of comprehensiveness, we would like to point out other cases where, despite purchasing Upper Tier II securities, the counterparties claim to have been unable to participate in the public offering due to misselling by the Parent Company, or in any event to have had objections relating to the Upper Tier II securities purchased after 31 December 2015 (cut-off date). Lastly, a limited number of disputes concerns cases in which investors sold their bonds prior to the Burden Sharing pursuant to Decree no. 237/2016. The focus of the opposing claims is concentrated on the alleged lack of disclosure and/or in any case violations of specific regulations on financial intermediation.

The total relief sought in these disputes as at 31 December 2023 was EUR 34.7 mln (EUR 37.2 mln as at 31 December 2022), while allocated provisions totalled EUR 15.5 mln (a decrease of EUR 0.6 mln compared to 31 December 2022).

Derivatives litigation

Litigation concerning OTC derivative contracts is mostly concerned with the ascertainment of the nullity of the product on the assumption that the financial instrument lacks the indication of elements such as the mark to market and the probabilistic scenarios considered essential by the now dominant jurisprudence following the well-known ruling of the Supreme Court in United Sections No. 8770/2020 (later confirmed by pronouncements No. 21830/2021 and No. 22014/2023).

On the assumption of nullity, the counterparties therefore request that the Parent Company be ordered to return all the amounts paid for the financial instruments in question, or the repetition of the spreads paid, the commissions as well as the failure to take on the residual mark to market in cases in which the derivative is still in place.

The total relief sought in these disputes as at 31 December 2023 was EUR 124.2 mln (EUR 120.3 mln as at 31 December 2022), whilst allocated provisions totalled EUR 45.5 mln (up compared to a provisions of EUR 30.1 mln as at 31 December 2022).

Disputes and out-of-court claims related to financial information

As at 31 December 2023, the Parent Company was exposed to civil actions, to the consequences of decisions arising from criminal proceedings (955/16 and 33714/16), and to out-of-court claims with regard to the financial information disclosed during the past periods. The total relief sought at the same date for this type of dispute was equal to approx. EUR 1,340 mln, broken down as follows (data in EUR mln):

Type of dispute	31 12 2023	30 09 2023	30 06 2023	31 03 2023	31 12 2022
Civil dispute	685	833	1,593	1,593	1,591
Filed civil claim cp 29634/14	-	-	111	111	111
Filed civil claim cp 955/16	160	160	160	158	158
Filed civil claim cp 33714/16	495				
Total legal proceedings	1,340	993	1,864	1,862	1,860
Out-of-court claims	-	1,863	2,264	2,260	1,533

With reference to civil disputes, the decrease in relief sought recorded as at 31 December 2023 compared to the end of the previous year, amounting to EUR 906 mln, is attributable to: (i) the reclassification to “remote” risk of a relief sought of EUR 741 mln Euro, carried out starting from 30 September 2023, following the ruling of the Court of Cassation of 11 October 2023 issued as part of criminal proceedings 29634/14 and (ii) the settlement of a relief sought of EUR 165 mln relating to certain plaintiffs in civil actions for intervention in criminal case 33714/16.

The relief sought of EUR 111 mln referred to the criminal proceedings 29634/14, classified as a “remote” risk as at 30 September 2023, was extinguished on 11 October 2023 following the above-mentioned decision of the Court of Cassation.



The document-based relief sought referring to the civil plaintiffs in the criminal proceedings 33714/16 amounted to EUR 495 mln, and is represented for the first time in the fourth quarter of 2023, after the Parent Company appearance in November 2023 as civilly liable party.

The relief sought of out-of-court proceedings as at 31 December 2023, net of complaints and mediations converted into judicial initiatives, amounted to EUR 1,519 mln and is not represented in the above table following the classification of the related risk from “likely” to “remote”.

The main disputes by type are outlined below.

Banca Monte dei Paschi di Siena S.p.A. vs. Alken Fund Sicav and Alken Luxembourg S.A. (now VTRMONT SA) dispute.

On 22 November 2017, the opposing parties (the “Funds”) served a complaint on the Parent Company, as well as Nomura International (“Nomura”), 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 Parent Company pursuant to art. 94 of the Consolidated Law on Finance (TUF), 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 the Parent Company 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 the Parent Company 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 opposing parties 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. It should be noted that the Parent Company has entered an appearance in time, articulating its defence; in the lawsuit, four natural persons have also intervened, separately and independently, claiming damages for a total of EUR 0.7 mln. At the hearing on 7 July 2020, the case was withheld pending decision and by ruling of 7 July 2021, the Court of Milan rejected all requests made by the Funds, which were ordered to refund the legal costs of the Parent Company. The request of a single intervener was partially accepted, in relation to which the Parent Company was ordered to pay the sum of approximately EUR 52 thousand (for principal and interest) jointly with Nomura and in part with Messrs Antonio Vigni and the lawyer Giuseppe Mussari. The Parent Company, Nomura and the Funds have appealed (the latter for a relief sought of approximately EUR 454 mln) against the ruling before the Milan Court of Appeal in which two of the parties that had appeared in the first instance, including the only party that had seen its claim partially granted, also filed a cross-appeal against the Parent Company for a relief sought of approximately EUR 0.6 mln. On 13 July 2022, the first hearing was held in the three pending appeal proceedings, which were ordered to be joined. The Court adjourned the joined cases for closing arguments to a hearing on 5 July 2023. This date was then brought forward to 10 May 2023 when the case was heard and decided in accordance with art. 190 of the Italian Code of Civil Procedure following the closing and rebuttal pleadings.

With a ruling published on 9 November 2023, the Court of Appeal of Milan rejected the claims of the Funds and the cross-appeals in their entirety, while the appeals of Banca MPS, Nomura, Mussari and Vigni were upheld. On 9 January 2024, the Funds filed an appeal before the Court of Cassation.

York and York Luxembourg Funds vs. Banca Monte dei Paschi di Siena S.p.A.

On 11 March 2019, the York and York Luxembourg Funds 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 the Parent Company and Mr Alessandro Profumo, Mr Fabrizio Viola, Paolo Salvadori as well as Nomura International PLC, ordering the defendants, jointly and severally, to pay damages amounting to a total of EUR 186.7 mln and – subject to an incidental finding that the offence of false corporate communications has been committed – to compensation for non-monetary damages to be paid on an equitable basis, pursuant to art. 1226 of the Italian Civil Code, plus interest, revaluation, interest pursuant to art. 1284, para. IV of the Italian Civil Code, and interest compound pursuant to art. 1283 of the Italian Civil Code.

The plaintiffs claim is based on alleged losses incurred as part of its investment transactions in Banca MPS totalling EUR 520.3 mln, carried out through the purchase of shares (investment of EUR 41.4 mln by the York Luxembourg Fund) and through synthetic purchases of equity swap contracts (whose value was linked to the performance of the MPS share at a 1:1 ratio) (investment of EUR 478.9 mln by the York Funds). The parties report that they have



fully disposed of the two investments described above with losses of approximately EUR 5.5 mln in the first investment and EUR 181.2 mln in the second.

The investment transactions challenged began in March 2014, when Messrs. Fabrizio Viola and Alessandro Profumo held the offices of CEO and Chairman, respectively, of the Bank. The plaintiffs charge alleged unlawful behaviour by top management of the Bank in falsifying the financial representation in financial statements, substantially modifying the assumptions used in measurements of financial instruments issued by the Parent Company.

The Parent Company duly appeared before the court. The parties filed preliminary briefs and argued their respective motions, and at the hearing on 15 July 2022 the Court of Milan: (i) declared the witness evidence requested by York, Nomura, Profumo and Viola to be inadmissible and (ii) referred to the panel – following the outcome of the decision regarding the causation – the assessment of the need to dispose of the accounting expert witness requested by York. At the hearing of 23 November 2023, the parties specified the conclusions and the case was withheld for decision with the legal deadline for the filing of the concluding documents.

Banca Monte dei Paschi di Siena S.p.A. / Civil action and third-party action of the Parent Company as civilly liable party

Criminal proceedings no. 29634/14

On 8 November 2019, the Court of Milan read the conclusion of the ruling of first instance, convicting all accused natural persons and, pursuant to Italian Legislative Decree 231/2001, Deutsche Bank AG and Nomura International PLC as legal persons. The grounds of the ruling were filed on 12 May 2020.

The Parent Company, as civilly liable person (not accused pursuant to Italian Legislative Decree 231/2001 as a result of a previous plea bargaining) was convicted – jointly with the accused natural persons and the two foreign banks – and ordered to pay damages to the civil parties still making an appearance, to be settled in separate civil proceedings, having the Court rejected the request to make available an amount on a provisional and immediately enforceable basis, pursuant to art. 539 of the Italian Code of Criminal Procedure.

The Parent Company filed an appeal before the Court of Appeal of Milan against the ruling of first instance, as the civilly liable party, jointly and severally liable with the defendants.

On 6 May 2022, the Court of Appeal of Milan, Second Criminal Division, acquitted all the defendants in the trial with a broad formula, highlighting that the “no offence was committed”. On 16 November 2022, an appeal was lodged with the Court of Cassation by both the Attorney General’s Office at the Court of Appeal of Milan and Consob. The appeals were discussed at the hearing of 11 October 2023 before Criminal Section V of the Court of Cassation.

At said hearing, the Court of Cassation, at the request of the Attorney General of the Supreme Court, declared the appeal of the Attorney General filed with the Court of Appeal to be inadmissible (the appeal filed by Consob was instead withdrawn following settlement with Nomura International PLC), consequently confirming the acquittal of all defendants in the case.

As a result of this, the relief sought of these proceedings was definitively cancelled starting from 11 October.

Criminal proceedings no. 13756/20

These criminal proceedings originate from the transmission of the documents to the Milan Public Prosecutor’s Office ordered in the first instance ruling in criminal trial no. 29634/14, as, during the hearing of oral arguments, relevant elements and circumstances emerged against two former managers of the Parent Company not involved in criminal proceedings no. 29634/14 regarding the construction, completion and accounting of the FRESH, Santorini and Alexandria transactions.

In this regard, as reported above, to be noted is that on 11 October last year the Court of Cassation acquitted all the defendants in criminal proceedings no. 29634/14.

In the aforementioned proceedings, CONSOB filed a civil action and requested and obtained, with the authorisation of the Preliminary Hearing Judge of 13 February 2023, the summons of the Parent Company as civilly liable party pursuant to art. 2049 of the Italian Civil Code for the offences alleged against the former Executive Managers named, with a claim for damages to be quantified during the trial. At the hearing on 4 May 2023, the Parent Company appeared in proceedings as a civilly liable party.



At the hearing in chambers of 16 November 2023, the Judge for the Preliminary Investigations, in line with the Supreme Court ruling which confirmed the acquittal for all the defendants in the “chief” proceedings, issued a ruling not to proceed against the two former managers.

Criminal proceedings no. 955/16

On 12 May 2017 the committal for trial of the representatives Alessandro Profumo, Fabrizio Viola and Paolo Salvadori was requested within new criminal proceedings before the Court of Milan, in which they were charged with false corporate disclosures (art. 2622 of the Italian Civil Code) in relation to the accounting of the “Santorini” and “Alexandria” transactions with reference to the Parent Company’s financial statements, reports and other corporate communications from 31 December 2012 to 31 December 2014 and with reference to the half-yearly report as at 30 June 2015, as well as market manipulation (art. 185 of the Consolidated Law on Finance) in relation to the disclosures to the public concerning the approval of the financial statements and the balance sheets specified above.

Following the formalization of the appearance before the court by the Parent Company, the Public 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.

Following the outcome of the preliminary hearing, the Preliminary Hearing Judge found no grounds for a decision not to proceed to judgement and ordered the committal for trial of the defendants, natural persons (Messrs. Viola, Profumo and Salvadori) and the Parent Company (as entity liable pursuant to Italian Legislative Decree 231/01). Only Mr Salvadori was found not to be subject to proceedings solely for the charge pursuant to art. 185 of the Consolidated Law on Finance.

At the hearing on 16 June 2020, following the indictment, the representatives of the Public Prosecutor’s office requested the acquittal of the defendants.

On 15 October 2020, the Court of Milan read the conclusion of the ruling of first instance, registered under number 10748/20, sentencing all accused natural persons and the Parent Company pursuant to Italian Legislative Decree 231/01. The reasons were filed on 7 April 2021.

The Parent Company filed an appeal before the Court of Appeal of Milan against the ruling of first instance, as the civilly liable party, jointly and severally liable with the defendants, having administrative liability under Italian Legislative Decree 231/2001.

On 11 December 2023, the Court overturned the first instance ruling. In particular, the defendants were acquitted because the offence did not exist and consequently the Parent Company was acquitted of administrative liability pursuant to Italian Legislative Decree 231/01 due to non-existence of predicate offences. The Court also revoked, against the defendants and the parent company as the civilly liable party, the awards for damages and the reimbursement of court costs and ordered those civil parties who had appealed to pay the court costs at first instance. The reasons for the ruling will be filed by mid-March.

Criminal proceedings no. 33714/16

In relation to criminal proceedings no. 33714/16 pending before the Milan Public Prosecutor’s Office, the Parent Company was originally implicated as party bearing administrative liability pursuant to Italian Legislative Decree no. 231/2001 in connection with an allegation of false corporate communications (pursuant to art. 2622 of the Italian Civil Code) relating to the 2012, 2013, 2014 Financial Statements and the 2015 half-yearly report due to the alleged overstatement of so-called non-performing loans.

On 4 May 2018, the Parent Company’s position was dismissed by the Public Prosecutor’s Office due to the groundlessness of the crime (a measure also confirmed by the General Prosecutor’s Office on 15 March 2019).

On 25 July 2019, the GIP [Preliminary Investigations Judge] of the Court of Milan, on the one hand, acknowledged the dismissal of the proceedings against the Parent Company, as the liable entity pursuant to Italian Legislative Decree No. 231/2001 and, on the other hand, ordered the continuation of the investigations of the defendant natural persons (i.e. chairman of the Board of Directors, Managing Director/CEO and pro-tempore Chairman of the Board of Statutory Auditors) thus rejecting the Public Prosecutor’s request for the case to be dismissed (supported by a detailed expert report prepared in the interest of the Public Prosecutor’s Office). The investigations continued in the form of an evidence gathering procedure (in which the Parent Company did not participate) during which two experts were appointed by the Preliminary Investigations Judge, who, on 30 April 2021, filed their report. The questions posed to the experts mainly concerned the verification of the correctness and timeliness of the adjustments to non-performing loans recorded by the Parent Company in the period from 2012 to 2017 in compliance with the accrual principle and the other accounting standards in force at the time of the events. The



conclusions of the experts (which contradicted those of the experts initially called upon by the Public Prosecutor's Office) were then included in the notice of conclusion of the investigation.

At the hearing on 8 June 2021, the evidence gathering procedure was closed and the Preliminary Investigations Judge forwarded the documents to the Public Prosecutor's Office assigning it a deadline of 45 days to carry out any further investigations and make their determinations.

As part of this further investigation phase, the Public Prosecutor ordered two new technical consultations. In particular, on 16 November 2021, the Public Prosecutor instructed two additional consultants to review the documentation related to the 100 positions for which the ECB, in the context of the 2015-2016 inspection, had indicated the greater difference between the provisions set aside by the Parent Company and those indicated by the same Supervisory Authority, in order to identify the actual effect of such deviation. This analysis was concluded with the preparation of further technical advice. The Public Prosecutor's consultants, while finding some alleged accounting errors, came to significantly different conclusions from those of the expert report ordered by the Preliminary Investigations Judge in 2020 on the same credit positions.

In addition, the Public Prosecutor instructed two officials of the Bank of Italy to review the effects on regulatory capital of major adjustments to non-performing loans that the Parent Company would have had to make in the financial years covered by the above-mentioned 2020 report. In this case, too, the two appointees have filed their own expert opinion.

On 25 February 2022, the Preliminary Investigations Judge informed the defendants of the extension of the deadline for the conclusion of the investigation (until 31 May 2022) requested by the Public Prosecutor.

On 16 September 2022, a notice was received concerning the conclusion of preliminary investigations pursuant to art. 415-bis of the Italian Code of Criminal Procedure against three former members of the Parent Company (two Chairmen of the Board of Directors and one Chief Executive Officer) and a former Executive manager (responsible for the preparation of corporate accounting documents). Despite the previous dismissal, the Parent Company also received the same notice as party bearing administrative liability pursuant to Italian Legislative Decree 231/01. On 14 December 2022, a request for committal for trial was issued against the aforementioned representatives and the former executive; on 12 December 2022, the Parent Company's position as administrative manager pursuant to the Compliance Model under law 231 was instead cancelled.

The natural persons are charged with the offences of false corporate communications (pursuant to art. 2622 of the Italian Civil Code) and market manipulation (pursuant to art. 185 of the Consolidated Law on Finance) with reference to the 2013-2014-2015 Financial Statements and the 2015-2016 half-yearly reports, as well as of false information (pursuant to art. 173-bis of the Consolidated Law on Finance) in relation to the 2014-2015 prospectuses.

According to the charges, in the above-mentioned corporate communications, the defendants allegedly posted adjustments relating to non-performing loans in violation of accounting standards, thereby misrepresenting the economic and financial position of the Parent Company. According to the accusation, this misrepresentation was also reflected in the communications and prospectuses altogether released by the Parent Company.

More than 4,000 civil parties appeared at the first preliminary hearing held on 12 May 2023. The preliminary hearing continued on 26 June 2023, as part of which new civil parties filed a claim, for a total of more than 5,000 parties. Consob and the Bank of Italy have not joined the proceedings as civil parties. Almost all the civil parties requested that the Bank be summonsed as civilly liable.

On 19 September 2023, the Judge issued a decree summoning the party bearing civil liability and at the hearing on 10 November 2023 the Parent Company entered an appearance.

At the hearing of 22 December 2023, the cross-examination was held on the issues concerning the plaintiffs. The Judge reserved his judgement and postponed the hearing to 22 April 2024 for the reading of the order. The next hearing will also be devoted to any preliminary issues, with the clarification that if these are exhausted, the Prosecution will proceed to the discussion. On 10 November, the calendar of hearings was also confirmed: 22 April 2024, 30 May 2024, 20 June 2024, 27 June 2024.

Parent Company Monte dei Paschi di Siena S.p.A. vs. Caltagirone Group

By a writ of summons dated 2 August 2022, the companies Caltagirone Editore SPA, Finced Srl, Capitolium Srl, Mantegna 87 Srl, Vianini Lavori Spa, and Fincal Spa brought an action against the Parent Company before the Court of Rome alleging that the Parent Company had failed to disclose to the market information in relation to investments in MPS shares made by the six companies between 2006 and 2011. In particular, the adverse parties



deduced that they had invested a total of approximately EUR 856 mln in MPS securities, as well as having resold these financial instruments in the first few months of 2012, reporting a capital loss of approximately EUR 741 mln.

On the assumption that such damage is directly related to the allegedly unlawful conduct of the Parent Company for the dissemination of erroneous price-sensitive information since 2006, the opposing parties, claim compensation for damages equal to the entire capital loss suffered, attributing to this allegedly untrue representation of the Parent Company's financial situation the fact that they purchased and/or maintained the MPS shares in their respective portfolios over the above-mentioned period of time.

At the first hearing on 30 January 2023, the judge reserved its decision, after which, by order of 19 November 2023, he declared the summons to be null and void as it was entirely generic, lacking even the causal connection between the allegedly unlawful conduct and the damage, and lacking the indication of the *causa petendi*, whereupon the Court adjourned the case to 16 April 2024, setting a peremptory term for both parties to supplement their defence documents.

The ruling of the Court of Cassation relating to criminal proceedings ref. 29634/14, together with other specific aspects of this dispute, from the third quarter of 2023 led to the reclassification of this dispute from "possible" to "remote" risk.

Banca Monte dei Paschi di Siena S.p.a. vs. Caputo + 24 others

On 4 December 2020, Mr Giuseppe Caputo and an additional twenty-five parties (now 24 after one of the plaintiffs died) sued the Parent Company before the Court of Milan to challenge the investments made by them in compliance with the share capital increases ordered by the same, or through purchases on the electronic/secondary market between 2014 and 2015. The plaintiffs claim that they have suffered serious damage as a result of the informational asymmetry created on the market by the Parent Company (here, referring, *inter alia*, to criminal proceedings R.G.N.R.[General register of Crimes] 29634/14, concluded at first instance with ruling no. 13490/2019, as well as criminal proceedings R.G.N.R. 955/16, concluded at first instance with ruling no. 10748/2020), and they also argue the incorrect accounting of non-performing loans starting from the 2013 financial statements, (here, conversely, referring to the ongoing criminal proceedings 33714/16); they also contest the unfair business practices put in place by the Parent Company, the investments in diamonds, the 2013-2017 Business Plan and the non-compliant business organization.

The plaintiffs therefore requested full compensation for the damage suffered equal to the entire consideration paid for the purchase of the BMPS shares, with a final quantification of the relief sought equal to approximately EUR 25.8 mln and – subject to the incidental finding of the crime of false corporate communications – compensation for non-pecuniary damage to be settled on an equitable basis pursuant to art. 1226 of the Italian Civil Code, plus interest and revaluation. Following the appearance of the MPS Bank and the first hearing, the parties filed the preliminary briefs and, at the subsequent hearing, discussed the requests formulated by the plaintiff, on which the Judge reserved the right to provide for their admission. Upon lifting the reservation, the Judge deemed it necessary to refer the case to the deliberating body in order to settle the dispute or to proceed with any expert investigations and therefore postponed the case to the hearing for closing arguments on 4 November 2022 which was then adjourned to 23 February 2023 regarding the same issues. On that date, the judge withheld the case for decision. With ruling of 6 November 2023, the Court declared the termination of the trial pursuant to art. 75, paragraph 1 of the Italian Code of Criminal Procedure for transfer of the action in the criminal proceedings relating to the credits (termination requested by all the plaintiffs except for two plaintiffs), rejected the opposing claims in full and sentenced the aforementioned two plaintiffs, jointly and severally, to pay the Parent Company's legal expenses settled in EUR 49,000 plus accessories, whereas the settlement of the legal expenses with reference to the plaintiffs against whom the termination was declared, was reserved for the criminal trial. On 8 February 2024, the ruling of the Court of Milan became *res judicata* since it was not appealed by the two remaining plaintiffs.

Banca Monte dei Paschi di Siena S.p.A. vs. Angelino + 40

By writ of summons dated 31 December 2022, Mr Angelino and forty other persons brought legal action against the Parent Company before the Court of Milan to challenge the investments made by them in compliance with the share capital increases ordered by the Bank, i.e. through purchases on the electronic secondary market of BMPS shares between 2013 and 2016. The plaintiffs claim to have suffered a serious loss as a result of the discrepancy of information disclosed on the market by the Parent Company (referring both to the criminal proceedings 29634/14 and to the proceedings 955/16); the focus of the opposing objections, also as a result of the acquittal of the former management Mussari and Vigni in 2022 by the Court of Appeal of Milan, is however focused on the alleged offences committed by the former directors Viola and Profumo starting from 2012 both with references – as mentioned – to criminal proceedings 955/16 now at the appeal stage and with regard to the incorrect accounting of non-performing loans starting from the 2013 Financial Statements (in this regard, referring to criminal



proceedings 33714/16); the adverse parties also contest the unfair commercial practices implemented by the Parent Company, the investments in diamonds, the 2013-2017 Business Plan.

The plaintiffs therefore requested full compensation for the damage suffered equal to the consideration paid for the purchase of the BMPS shares, with a final quantification of the relief sought of approximately EUR 81.2 mln in addition to interest and revaluation from the due date to the balance and in addition to the loss of profit; they also requested that the Parent Company be sentenced to pay compensation for damages, including non-pecuniary damages, subject to the preliminary assessment of the crime of false corporate communications (art. 2622 of the Italian Civil Code) and market manipulation (art. 185 of the Consolidated Law on Finance) to be settled on an equitable basis pursuant to art. 1226 of the Italian Civil Code. At the first hearing on 13 June 2023, the plaintiffs' lawyer reported that – in addition to five plaintiffs who had already filed civil claims in the criminal proceedings under RGNR 955/2016 – all the other plaintiffs also intended to transfer their claims for compensation against the Bank to the criminal proceedings, appearing as an aggrieved civil party in proceedings under RGNR 33714/16 with waiver of the proceedings in question pursuant to art. 75, paragraph 1 of the Italian Code of Criminal Procedure. At the hearing on 17 October 2023, to which the case had been adjourned, the opposing party therefore filed a claim for closure of the proceedings, except for 2 plaintiffs (and of the 5 parties appearing in proceedings ref. 955/16), for which the plaintiff instead requested suspension pursuant to art. 295 of the Italian Code of Civil Procedure. By order dated 20 October 2023, the judge declared the termination of proceedings pursuant to art. 75 of the Italian Code of Criminal Procedure with reference to all the plaintiffs with the exception of two plaintiffs for whom he ordered the suspension of proceedings pursuant to Article 295 of the Italian Code of Criminal Procedure. Therefore, the residual relief sought to date amounts to EUR 14.7 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

The grand total of out-of-court claims (complaints and mediations) received by the Parent Company from parties not involved in civil and criminal proceedings as at 31 December 2023, relating to capital increase transactions and allegedly incorrect financial disclosures in prospectuses and/or Financial Statements and/or price-sensitive information, amounted to EUR 1,519 bn, and was entirely classified as remote risk due to the civil and criminal judgements recorded in the fourth quarter.

Moreover, these are largely generic claims, received mainly from an advisory firm on behalf of institutional investors, in which the temporal references are not clarified (they claim losses that also refer to events that have never been disputed) and, which require particular investigation with respect to both the cause of action and the right to appeal. These are in fact investors who show that they have also made investments in the name and on behalf of third parties, whose ties with the claimant are neither clarified nor documented.

In fact, the information contained in these requests is particularly lacking in this regard and stands out:

- a) for being totally generic or indefinite (i.e. such as not to allow *prima facie* a verification of the same nature and/or the actual content of the claim);
- b) for the absence of elements enabling the prior ascertainment of possible deficiencies in the basic requirements for the formulation of claims for compensation (for example, in cases in which the complainant is not even able to demonstrate that they have made direct investments influenced by alleged misuse of information) to be ascertained in advance;
- c) for failure to refer to appropriate documentary support that are abstractly suitable to support any claim;
- d) for the absence of precise and reliable data that allow for the investment to be temporarily allocated (and distinguished) so as to be able to appreciate (and weigh) the unfounded profiles of the claim due to the absence of adequate demonstration of a causal link, also in light of the investment policy followed in practice by the investor.

The judicial proceedings described in more detail above and related (i) to the adjudication of the judgement relating to criminal proceedings 29634/14 and the consequent termination of the proceedings, (ii) to the issue, as part of criminal proceedings 955/16, of the acquittal judgement of the Court of Criminal Appeal of Milan and (iii) the issuance in the Alken case of the second instance ruling by the Court of Appeal of Milan, have led, in part as of 30 September but especially in the fourth quarter of 2023, also taking into account the progressive increase of further positive rulings in all clusters of civil litigation related to the disclosure of financial information in the period 2008-2015, to significant changes in the assessments of the risk of disbursement of financial resources resulting from a potential negative outcome of the case. In detail, starting from 30 September 2023, the risk of losing was reclassified from "possible" to "remote" as regards legal disputes (including the one with the Caltagirone Group for EUR 741 mln), of the civil plaintiff claims in criminal proceedings 29634/14 and out-of-court claims concerning disputes



relating to the period 2008-2011, the latter for a relief sought of EUR 405 mln. During the fourth quarter of 2023, the relief sought of civil action in criminal proceedings 29634/14 was definitively cancelled, the risk related to the civil dispute, as well as criminal proceedings 955/16, was downgraded from “probable” to “possible” and finally, the risk of out-of-court claims, other than those that were already classified as “remote” risk in September, was classified from “probable/possible” to “remote”, with consequent recognition in the income statement of the related provisions for risks and charges.

As at 31 December 2023, only criminal proceedings 33714/16 is, as a precautionary measure and pending further developments, classified as “likely risk”. The provisions for risks and charges relating to these proceedings were determined so as to take into account the amount invested by the counterparty in specific periods of time 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 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 civil party was calculated, taking into account the share of capital held from time to time. From a prudential standpoint, along with the differential damage, the different criterion of “full compensation” was also taken into account (of a minor importance in the prevailing law, including the one that is currently taking shape on this specific subject matter), and that is based on the argument that false or incomplete information may have a causal impact on the investment choices of the investors to such an extent that, in the presence of correct information, they would not have made the investment in question; in this case, the damage is therefore commensurate to the invested capital, net of the amounts recovered from the sale of shares by the civil party.

In any case, the Parent Company has exercised the possibility granted by IAS 37 of not providing disclosures on the provisions allocated in the balance sheet as it believes that such information could seriously jeopardise its position in disputes and in potential settlement agreements.

Overall, settlement agreements were reached which led to the closure of disputes and out-of-court claims for a total relief sought of approximately EUR 4.4 bn with a total outlay of approximately EUR 242 mln (5.5% of the relief sought); these amounts include the transaction for EUR 150 mln with the MPS Foundation, which took place in 2021, against a relief sought of EUR 3.8 bn (4% of the relief sought).

It should also be noted that until December 2023, disputes and criminal proceedings reached a ruling, at least in the first instance, concerning a relief sought of over EUR 751 mln. There were a minority of unfavourable judgements and resulted in damages from the Bank for approx. EUR 4 mln.

Banca Monte dei Paschi di Siena S.p.A. vs. Fresh 2008 bondholders

Some holders of FRESH 2008 securities maturing in 2009, with writ of summons served on 15 November 2017, initiated proceedings at the Court of Luxembourg against the Parent Company, the company Mitsubishi UFJ Investors Services & Banking Luxembourg SA (which replaced the Bank in issuing the bond loan Bank of New York Mellon Luxembourg), the British company JP Morgan Securities PLC and the American company JP Morgan Chase Bank N.A. (which entered into a swap agreement with the bond loan issuer) so that: (i) the inapplicability of the Burden Sharing Decree to the holders of the FRESH 2008 Securities is ascertained and, consequently, to hold that the said bonds cannot be forcibly converted into shares, (ii) the validity and effectiveness of the said bonds in accordance with the terms and conditions of their issue be affirmed insofar as they are governed by Luxembourg law, and, finally, (iii) it is declared that the Parent Company is not entitled, in the absence of the conversion of the FRESH 2008 Securities, to obtain from JP Morgan the payment of EUR 49.9 mln to the detriment of the holders of the FRESH 2008 Securities. The Court of Luxembourg, by order of 11 January 2022, dismissed the requests made by the Parent Company to stay the proceedings until the ruling of the international courts with regard to the preliminary objections raised by the Parent Company; on the other hand, it upheld the plea of lack of jurisdiction of the court before which the case was brought in relation to the claim concerning the usufruct contract entered into by the Bank with JP Morgan Securities PLC and JP Morgan Chase in the context of the 2008 share capital increase transaction. In relation to the aforementioned usufruct contract, the Luxembourg Court has reserved its judgement pending the decision of the Italian Court and, on the contrary, has declared its jurisdiction in relation to the swap contract entered into by the Parent Company with the same counterparties in the context of the 2008 capital increase transaction.



It is noted that, following the start of the proceedings in question by the holders of the FRESH 2008 Securities, the Parent Company, on 19 April 2018, has brought a legal action 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) S.A. 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 Parent Company with the first two defendants in the context of the operation of the share capital increase in 2008. Consequently, the Bank asked:

- to ascertain, pursuant to Article 22, paragraph 4 of Decree 237 of 23 December 2016, the ineffectiveness of the usufruct contract and the company swap agreement that provide for payment obligations in favour of JP Morgan Securities PLC and JP Morgan Chase Bank NA;
- to ascertain the ineffectiveness and/or termination and/or discharge of the usufruct contract or, in the alternative;
- to ascertain the termination of the usufruct contract due to the capital deficiency event of 30 June 2017.

The first hearing was held on 18 December 2018 and the Investigating 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 relief sought and the same cause, had granted the parties terms to reply only to the procedural objections and adjourned the hearing to 16 April 2019 for assessment of the disputed issue. At the subsequent hearing on 2 July 2019, the case was held over for decision and by order of 2 December 2019, the Court of Milan ordered the proceedings to be suspended pending the decision of the aforementioned Luxembourg Court. Against this order, the Parent Company had filed a petition with the Court of Cassation for the referral to a different competent court. The court has rejected the petition of the Parent Company with ruling dated 31 March 2021.

In the meantime, the holders of the Fresh securities challenged the first instance ruling issued by the Luxembourg Court in November 2022, against which the Parent Company in turn filed a cross-appeal.

At the same time, the Parent Company – based on the ruling issued by the Court of Luxembourg – filed an appeal to the Court of Milan for the resumption of the proceedings initiated therein in 2018, but the Court of Milan, with a recent order of 11 January 2024, declared it so inadmissible, highlighting that the suspension of the Italian proceedings had been ordered at the time (02.12.2019) until the final decision of the Luxembourg Court, a decision which, however, having been the subject, as mentioned above, of both the main appeal and the cross-appeal, did not become final, therefore the conditions that had prompted the Italian judge to withhold the suspended proceedings were still in place.

In the event of a favourable outcome of the dispute, the FRESH 2008 Securities will be converted into the shares, already issued, of the Parent Company which will also collect the amount of EUR 49.9 mln, recording a corresponding economic income.

In the event of an unfavourable outcome of the dispute, the principle of burden sharing cannot be applied and therefore the bond-holders will retain the right to receive the coupon (equal to Euribor 3M + 425 bps on a notional amount of EUR 1 bn) provided that the Parent Company generates distributable profits and pays dividends. Since the Parent Company has not paid dividends since the date of the burden sharing, any unfavourable outcome of the dispute will only produce prospective effects and only in the event of dividend distribution.

Considering that the Parent Company has not paid dividends since the date of the burden sharing, any unfavourable outcome of the dispute will only produce effects starting with the decision to distribute dividends in 2024 from the 2023 profit. In any case, at the current stage of the dispute, the Parent Company considers all rights of the 2008 FRESH bond-holders null and void pursuant to the application of art. 22, paragraph 4 of Italian Legislative Decree 237/2016 and of the capital deficiency event recorded as at 30 June 2017. It has therefore determined the equity ratios and earnings per share as at 31 December 2023 without taking into account the 2008 FRESH coupon.

Other disputes

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

This case, where the Parent Company was sued together with other credit institutions and companies with the summons of 27 June 2007, seeks the assessment of alleged monetary and non-monetary damage suffered by the plaintiff, as a result of an alleged unlawful report filed with the Italian Central Credit Register. The relative relief sought is EUR 157 mln. The plaintiff also asks that the defendant banks be found jointly liable, each proportionately to the seriousness of its behavior. The Parent Company's defence was based on the fact that the company's extremely severe financial situation fully justified the Parent Company's initiatives.



At the hearing of 31 May 2018, the Judge reserved his decision on the preliminary objections raised by the parties. On 5 June 2018, the bankruptcy of the company was declared, which prompted the receivership to take up the case again. At the end of the preliminary investigation, during which an expert was court-appointed, the case was withheld for decision on 6 October 2022. Subsequently, on 11 November 2022, the Court of Salerno ascertained and settled only the non-pecuniary damage, amounting to EUR 20,000 for each bank (thus totalling EUR 100,000), plus interest and costs of litigation. The disbursement attributable to the Parent Company amounted to EUR 34,151.69. The substantially successful outcome of the proceedings led to the conclusion that the appeal was not admissible, which, however, was lodged by the Receivership with summons served on 10 July 2023. The paper hearing was held on 11 January 2024; the Court's rulings on the continuation of the proceedings are pending.

Banca Monte dei Paschi di Siena S.p.A. vs. Marcangeli Giunio S.r.l.

With a writ of summons, notified on 28 November 2019, the claimant Marcangeli Giunio S.r.l. asked the Court of Siena to assess, first and foremost, the contractual liability of the Parent Company for not issuing a loan of EUR 24.2 mln - necessary to the purchase of land and the construction of a shopping mall with spaces to be leased or sold – and subsequently the conviction of the Parent Company with order to pay compensation for damages and loss of profit in the amount of EUR 43.3 mln. As an alternative, in view of the facts specified in the writ of summons, a request is made for the Parent Company to be found pre-contractually liable for having interrupted the negotiations with the company without disbursing the agreed loan, and to be ordered to pay compensation in the same amount asked first and foremost.

In a judgment filed on 6 June 2022, the Court of Siena rejected the plaintiff company's claims for damages on the grounds of contractual and extra-contractual liability. The Court only upheld the restitutory claim brought by the opposing party with regard to the allegedly unlawful interest applied in connection with the land advances, quantified in EUR 58,038.27, plus legal interest, and ordering the costs to be offset. By summons dated 23 December 2022, the company filed an appeal before the Court of Appeal of Florence with first appearance hearing on 15 May 2023. The Parent Company duly appeared and, with ruling no. 2058/2023 of 12 October 2023, the Court substantially confirmed the favorable first instance decision, partly offsetting expenses. The favorable judgement will become final on 12 April 2024 for the time being no appeal has been received from the opposing party.

Banca Monte dei Paschi di Siena S.p.A. vs. Riscossione Sicilia S.p.A.

By writ of summons notified on 15 July 2016 Riscossione Sicilia S.p.A. (today the Italian Revenue Agency - Collection, which took over universally in all legal relationships of Riscossione Sicilia starting from 1 October 2021, pursuant to art. 76 of Italian Law Decree no. 73/2021 converted with Italian Law no. 106/2021) had summoned the Parent Company before the Court of Palermo, asking for it to be ordered to pay the total sum of EUR 106.8 mln.

The claim of Riscossione Sicilia S.p.A. falls within the realm of the complex dealings between the Parent Company and the plaintiff, originated from the disposal to Riscossione Sicilia S.p.A. (pursuant to Italian Law Decree 203/05, converted into Italian Law 248/05) of the equity investment held by the Parent Company in Monte Paschi Serit S.p.A. (later Serit Sicilia S.p.A.).

In the preliminary phase of the proceedings, a court-appointed technical consultancy was carried out, the results of which were favourable to the Parent Company. In fact, the court-appointed expert not only concluded that the Parent Company owes nothing to Riscossione Sicilia S.p.A., but also identified a receivable of the Parent Company of roughly EUR 2.8 mln, equal to the balance of the price for the sale of 60% of Serit Sicilia S.p.A. to Riscossione Sicilia S.p.A. by the Parent Company (dating back to September 2006), a sum that has to date been held in escrow by Riscossione Sicilia S.p.A. With judgement no. 2350/22, filed on 30 May 2022, the Court of Palermo, essentially adhering to the conclusions of the court-appointed expert, rejected Riscossione Sicilia's counterclaims and sentenced the latter to pay the Parent Company approximately EUR 2.9 mln plus legal interest and court fees.

This judgment was appealed on 27 December 2022 by summons before the Court of Appeal of Palermo. The Parent Company made an entry of appearance with a petition filed on 15 April, explaining a cross-appeal. The first appearance at the hearing of 5 May was held in written form, and the time is now postponed to 7 November 2025.

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On 17 July 2018, the Finance Department of the Sicily Region sent to the Parent Company 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 amount of around EUR 68.6 mln, assigning the Parent Company the term of 30 days to



make the payment with the warning that, in the event of failure to do so, it will proceed with the forced recovery through the registration of the claim. The Sicily Region filed a petition for the summons of Riscossione Sicilia, resulting in the postponement of the first appearance hearing, which was held on 26 September 2019 and in which the Judge, upon acknowledging the statements provided by the parties, set out the terms for lodging the statements pursuant to art. 183 of the Italian Code of Civil Procedure and adjourned to an evidentiary hearing scheduled for 26 November 2020. On that occasion, the Parent Company asked for the hearing closing arguments to be scheduled, requesting the Court to verify the action had become devoid of purpose, as Riscossione Sicilia during the proceedings had proved that the receivable claimed by the Sicily Region had been fully cancelled.

With ruling no. 3649/2021, published on 4 October 2021 and notified on 5 October 2021, the Court of Palermo rejected the Parent Company's opposition against the aforementioned order with simultaneous condemnation of the Parent Company to pay the litigation costs. The Parent Company lodged an appeal against this decision before the Palermo Court of Appeal. By order filed on 11 February 2022, the Court of Appeal ordered the joinder of the Italian Revenue Agency - Collection (ADER) to the case, as successor of Riscossione Sicilia spa, ordering it to appear at the hearing scheduled for 1 July 2022, during which time the case was postponed to the hearing of 22 November 2024 for the presentation of closing arguments.

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For the sake of completeness, it should be noted that the Parent Company 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, by appeal lodged on 16 October 2018 (RG 2201/2018).

The appeal concerns the challenging of 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 approx. EUR 68.6 mln plus interest at the rate established by special legislation for late payment in commercial transactions, as provided for in paragraph 4 of art. 1284 of the Italian Civil Code". With ruling no. 3043 of 17 November 2023, the Regional Administrative Court of Sicily accepted the Parent Company's appeal, cancelling the challenged measure limited to the request submitted alternatively by the Sicily Regional Government, deeming that the Councillor Office's right cannot be the object to any action for protection of possession pursuant to art. 823, paragraph 2, of the Italian Civil Code, since it constitutes a right of claim rather than a right in rem, and ordered the costs to be offset between the parties.

The lawsuit to oppose the execution and the tax bill as an enforceable act pursuant to art. 615 of the Italian Code of Criminal Procedure before the Court of Siena, which was filed there on 21 November 2022 (RG 2737/2022) also for the purpose of obtaining the suspension of the enforceability of the act, was instead concluded with a ruling of 13 December 2023 that rejected the Parent Company's opposition, sentencing it to pay the costs of EUR 91,595.00, for which a possible appeal against the ruling is currently being assessed.

The other actions undertaken by the Parent Company to respond to the credit claim of the Revenue Agency/Sicily Collection – and precisely the application before the Court of Auditors on 21 November 2022 pursuant to art. 172 par. 1 letter d) to declare null and void the actions carried out for the recovery of the amounts as well as the petition of 16 November 2022 pursuant to Law 228/2012 to obtain the suspension of the collection of the amount brought by the tax bill – were unsuccessful and therefore, on 27 January 2023, the payment of the amount of EUR 74 mln was ordered. The steps necessary to recover the afore-mentioned credit of about EUR 68.6 mln from ADER, to which the Parent Company is entitled, as the sole successor of Riscossione Sicilia, are underway.

Banca Monte dei Paschi di Siena S.p.A. vs. Nuova Idea

With a writ of summons notified on 21 December 2021, Nuova Idea S.r.l. summoned the Parent Company before the Court of Caltanissetta in order to have it declare that it was obliged to compensate all the damages, financial and non-financial, suffered by the company as a consequence of the protest of a bill of EUR 2,947 domiciled at the Caltanissetta branch, which according to the plaintiff's prospect would have been raised due to the Parent Company's exclusive act and negligence.

The plaintiff argues that the illegitimate protest constituted the only causation of a chain of events described in the writ of summons which resulted in the sharp reduction of its shareholdings in a Temporary Grouping of Companies that had been awarded a service contract with ASL Napoli 1 Centro, consequently requesting, principally, that the Parent Company was ordered to pay in its favour the amount of EUR 57.3 mln by way of loss of earnings as well as an amount of EUR 2.8 mln by way of loss of profit, and thus a total of EUR 60.1 mln, in



addition to compensation for damage to the corporate image and commercial reputation to be paid on an equitable basis.

The first appearance hearing, indicated in the summons as 29 April 2022, was postponed to 4 May 2022. The Parent Company promptly appeared, stating the correctness of the behaviour taken when the protest was raised and the absence of any causal link between the Parent Company's actions and the alleged damage. The Judge, having withdrawn the reservation on the preliminary enquiries made by the parties at the hearing of 29 March 2023, admitted evidence brought by witness testimony. By order of 15 July 2023, the Judge ordered a confrontation between witnesses as per the Bank's request, in consideration of their conflicting statements made at the hearing of 19 May 2023, setting a new hearing for this purpose on 15 September 2023, then postponed to 20 October 2023. At the hearing on 20 October 2023, the witnesses in the confrontation confirmed their conflicting versions of the events that occurred. The case was adjourned to a written hearing scheduled for 13 December 2023, the date on which the judge ordered a further confrontation between the witnesses, setting the next hearing for 7 February 2024, then postponed to 28 February, in order to obtain a final clarification.

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

The company EUR S.p.A. sued the former subsidiary MPS Capital Services Banca per le Imprese S.p.A. (hereinafter MPSCS) before the Court of Rome, together with three other lending banks, primarily in order to obtain a declaration of invalidity or, alternatively, the cancellation and/or ineffectiveness of the following contracts: 1) Interest rate swap (IRS) concluded on 24 April 2009; 2) IRS of 29 July 2019; 3) the Novation Confirmation of 15 July 2010, with which the IRS sub 2 was transferred from Eur Congressi Spa to Eur Spa; 4) the close out contract dated 29 July 2010 relating to IRS sub 1; 5) the Termination Agreement of 18 December 2015 relating to IRS sub 2. Again primarily, the plaintiff seeks the condemnation of the banks in the pool, jointly and severally, by way of restitution of the undue payment and compensation for pre-contractual and/or contractual and/or non-contractual damage, to the payment of approx. EUR 57.7 mln representing the relief sought as indicated by the plaintiff.

Since this amount relates to all the derivatives concluded by the 4 banks of the pool with EUR S.p.A., it should be noted that in the unlikely event of losing, the Parent Company, having been sentenced to pay the compensation, will be entitled to share the amount paid with the other banks in the pool in proportion to the quota in the loan, which for MPSCS was 12.61%.

The former subsidiary MPSCS appeared in court to have the full validity of its actions recognised and to request the rejection of the plaintiff's claims. In the deed of appearance and replay, it objected *in limine litis* the lack of jurisdiction of the court, given that the contracts regulating derivative operations with EUR S.p.A. consisted of ISDA Master Agreements governed by English law and subject to the jurisdiction of the Anglo-Saxon courts. The existence of the jurisdiction of the Italian court, according to the plaintiff, is due to the link between the IRSs and the financing contracts, which are governed precisely by Italian law, as well as to the public nature of EUR S.p.A. "as a company wholly owned by public institutions".

On 21 April 2023, the Court of Rome, rejecting the claims made by EUR, issued the decision in which: 1) it declared the lack of jurisdiction of the Italian Court, in favour of the UK Court; 2) it declared that the objection of lis pendens ceased to obtain, alternatively, by the defendant Banks pursuant to art. 7, paragraph 1 of Italian Law no. 218 of 31 May 1995; 3) it ordered that legal costs be fully off-set between the parties.

On 5 December 2023, EUR notified the appeal against the first instance judgement, challenging the decision of the Court to refer the case to the jurisdiction of the English court and re-proposing in substance all the claims and arguments put forward in the first instance, thus soliciting a different decision from the Court of Appeal of Rome. The Parent Company will enter the related appearance in court together with the other defendant Banks.

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

In February 2020, the Italtrading receiver sued the former subsidiary MPS Leasing & Factoring, as civilly liable for the damage pursuant to art. 2049 of the Italian Civil Code caused through a former employee, consisting of the irregular recognition in the financial statements of lower payables to the banking system and at the same time of lower receivables from subsidiaries and some customers. This is in violation of the provisions of art. 2423 of the Italian Civil Code, resulting in a concealment of the loss of share capital and, therefore, an aggravation of the insolvency. The claim for damages was quantified at EUR 132.8 mln.

During the lawsuit, in which the former subsidiary appeared before the court, following the conclusions of the insolvency proceedings, the claim was reduced to EUR 63 mln with the request for a provisional payment of EUR 6 mln.



With ruling of 19 May 2023, the Court of Milan acquitted the former employee of the charges against him, with consequent release effect for Banca MPS, which had taken over by virtue of incorporation from MPS L&F. Appeal proceedings are pending before the Court of Appeal of Milan, filed last October by the Italtrading receivers.

Banca Monte dei Paschi di Siena S.p.A. vs. Privilege Yard S.p.A. (in bankruptcy) - Appeal

With ruling no. 14832/2022 of 4 October 2022, the Court of Rome ascertained the liability of various credit institutions, including the former subsidiary MPSCS, defendants jointly and severally for complicity pursuant to art. 2055 of the Italian Civil Code in the misadministration by the directors of Privilege Yard S.p.A. pursuant to art. 2393 of the Italian Civil Code and consequently ordered them to pay as compensation for the damage caused to the assets of Privilege Yard S.p.A. an amount, quantifiable by way of application of the net equity criterion, equal to EUR 57.1 mln, in addition to legal costs and expenses.

In agreement with the other banks, which were originally part of the pool, the decision was to proceed with the spontaneous payment, although subject to repetition at the outcome of the appeal, by paying in the agreed amount of one fifth, for each bank, of the sentenced amount plus costs, fees and expenses.

With the officers of the other convicted Banks and in synergy with its own decision-making bodies, on 21 December 2022 MPSCS, through its legal counsel, filed an appeal and entered the case in the register, retracing in the appeal all the points of the first instance ruling that are allegedly flawed, both in terms of the grounds and in terms of the correct application of the rules invoked thereby in support of the conviction.

All the Banks autonomously filed an appeal. The appeals were all joined with the main appeal brought by Banco BPM, RG no. 6517/2022 and assigned to the second specialised section on corporate matters of the Court of Appeal of Rome with the first appearance hearing in February 2024 where it was decided to postpone the hearing for clarification of the conclusions to November 2025.

Several proposals were submitted by third parties to the Banks for the transfer of the dispute, some formalised, others only verbal to explore the Banks' possible willingness to settle. Finally, the receiver would seem to have an interest in directly settling the case for the closure of the bankruptcy proceedings.

Banca Monte dei Paschi di Siena S.p.A. vs. Barbero Metalli S.p.A.

The proceedings, with relief sought equal to EUR 37.5 mln, were brought by B.M. 124 S.R.L. – official assignee of the composition in bankruptcy pertaining to Barbero Metalli Spa in JV with BeCause - against the directors and external auditors of the company, as well as the different credit institutions jointly and severally, for having contributed to the insolvency of the company through the predatory lending.

The thesis put forward by the plaintiff is based on the alleged joint and several liability of the banks with the Board of Directors of Barbero Metalli S.p.A. for having contributed to the commission of acts of misadministration, to the artificial survival of the company, to the concealment of the irreversibility of the financial difficulties and to the worsening thereof.

The plaintiff asks for the directors, auditors and banks to be found jointly and severally liable for approximately EUR 37.5 mln as additional loss incurred by the company, and in the alternative liable for EUR 22.9 mln, as the value of individual detrimental transactions carried out by the company and expressly listed in the summons (the contribution indicated for the Parent Company would consist in having advanced EUR 8.8 mln to the company since 2009).

Having completed the mediation process, which was in actual fact, never formally opened, and having filed the parties' written submissions, the Judge ordered a postponement to 21 December 2022 for the hearing for discussion, which was ultimately postponed to the hearing of 3 May 2023. At that hearing, the Judge invited the plaintiff to spontaneously produce, by 29 September 2023, all the transactions concluded even before the commencement of proceedings relating to the matter of the dispute, adjourning the hearing to 12 October 2023 to verify fulfilment of the aforementioned order. Given the addition of the parties to the action necessary for the purposes of the exclusion rulings, the Judge adjourned the case to the hearing of 23 January 2024 for discussion of the preliminary motions. The hearing was merely interlocutory and the Judge reserved its decision on the termination of the proceedings due to novation with respect to parties who, having reached compromise settlements, no longer have an interest in the continuation of the proceedings. The date for the next hearing has not been set.



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

In June 2020, a summons was served by the bankruptcy receiver of Isoldi Holding S.p.A. in liquidation against several credit institutions (including the Parent Company) on the assumption of joint and several liability of the banks with the board of directors of Isoldi Holding S.p.A. in liquidation for having contributed to the commission of acts disposing of the company's assets, to the artificial survival of the company despite its insolvency and to the worsening thereof, with a request for compensation quantified at EUR 48.5 mln. The acts cited are identified as:

- purchase of shares and the related option rights of the company Aedes S.p.a., carried out at prejudicial conditions compared to market prices with an increase in indebtedness, in a position of equity and financial instability of the bankrupt company;
- access to a reorganisation plan pursuant to art. 67, paragraph 3, letter d), of the Bankruptcy Law, signed on 9 May 2011 by 7 banks (the Parent Company for 19%) and Isoldi Holding through the establishment of two new companies for the transfer of business units bound to the satisfaction of debtors with collaterals (Newco Isoldi and I.R.O.) and the disbursement of new funding for a total of EUR 17.6 mln secured by mortgages in second grade and sureties of Isoldi Holding.

The first hearing was held on 16 February 2023 with the judge reserving judgment on the various preliminary claims brought by the parties without granting the six-month postponement requested by the Receivers for the definition of an insolvency agreement and subsequent continuation of proceedings by the insolvent party. Proceedings were adjourned to 21 September 2023 for the production of evidence. On 9 January 2024, the Judge withdrew his reservation, recognising, on a preliminary basis, the assignee's legitimacy to continue the proceedings initiated by the receivers and approving the court-appointed expert in relation to the two macro transactions referred to in the summons.

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

The lawsuit, with relief sought amounting to EUR 42.2 mln, was brought against different credit institutions jointly and severally alleged to have contributed to the insolvency of the company through predatory lending.

Notably, in regard to the position of the former subsidiary MPSCS, the claim refers to the connivance with the acts of misadministration of the directors, who made use of credit at a time when the state of crisis of the company was no longer remediable, not in view of a corporate restructuring, but for the sole purpose of continuing the business activity and management, without letting this state of crisis become public, thus delaying the declaration of insolvency, and causing damage to the company and its creditors by granting mortgage loan on 4 August 2011.

The plaintiff sought an order against the former subsidiary and the other banks, jointly and severally, or each of them for its part, to pay damages to the liquidator of the insolvent company, in the amount of approximately EUR 42.3 mln, or in the different amount, greater or lesser, that the Court will deem appropriate, also pursuant to art. 1226 of the Italian Civil Code, as well as interest and revaluation.

Given the content of the claims, the share of the risk pertaining to the former subsidiary MPSCS, jointly and severally summoned with the other defendants to pay the entire amount requested in relief, has not been quantified.

On 3 February 2022, the Judge lifted the reservation by postponing the case to the hearing of 31 October 2022 to produce items of evidence. The receivers asked for the appointment of a court-appointed expert. At the hearing, the Receivers insisted on the request for an economic-financial and accounting court-appointed expert report and the request for the issuance of the order to produce evidence concerning the investigation carried out by the banks prior to the granting of the loans to Parrini. MPSCS contested the opposing claims, pointing out the fact-finding nature thereof, insofar as they were intended to make up for the lack of evidence of the claim. The Judge reserved decision and the appointed lawyers will notify the measure that will be issued on lifting the reservation.

Banca Monte dei Paschi di Siena S.p.A./ Le Camelie S.R.L. dispute

The lawsuit was brought by the company "LE CAMELIE S.R.L." and by Mr Giacomo Polito, as third-party mortgage lender, against Banca Monte dei Paschi di Siena Spa, the former subsidiary MPS Capital Services Spa together with Siena NPL 2018, for alleged simulation of the allocation of the amounts disbursed for mortgage loans, for predatory lending and for nullity of contracts due to unlawful grounds thereof.

The transactions involved are three mortgage loans granted by the MPS Group in 2006, 2007 and 2010 for EUR 10 mln, EUR 2.5 mln and EUR 4.3 mln, respectively.



The compensation claim amounts to a total of EUR 45.2 mln, a value corresponding to the sum of the values attributed by the plaintiffs to their foreclosed assets in the enforcement proceedings initiated in relation to the loans in question.

The first appearance hearing took place on 14 October 2022 and was postponed to 31 January 2023 to produce evidence. On that date, the Judge deemed the case ripe for the decision and set the hearing of 6 February 2024 for the clarification of the conclusions. The proceedings were postponed to 24 May 2024, pursuant to art. 309 of the Italian Code of Civil Procedure, for negotiations on a settlement with the assignee.

Banca Monte dei Paschi di Siena SpA vs. Società Italiana per Condotte D'Acqua S.p.A. under extraordinary administrative proceedings

By means of a writ of summons served on the Parent Company on 23 December 2022, Società Italiana per Condotte D'Acqua S.p.A. under extraordinary administrative proceedings brought an action for damages (case ref. no. 960/2023) against the credit institutions in conjunction with the factoring companies (32 counterparties), the independent auditors, the members of the Managing Board and of the Supervisory Board of the company in bonis, for having contributed - through the use and granting of credit - to the commission of acts of misadministration that caused (or contributed to causing) serious damage to the company and to the entire creditors' class. The damage is quantified:

- jointly and severally among all defendants in the amount of EUR 389.3 mln;
- alternatively EUR 322.0 mln (increase in insolvency liabilities);
- or alternatively in the amount of EUR 39.5 mln with reference to individual transactions (referring to associates).

With a second writ of summons served on 19 April 2023, Società Italiana per Condotte D'Acqua S.p.A. under extraordinary administrative proceedings also sued Cassa Depositi e Prestiti S.p.A. and SACE S.p.A. (case ref. no. 24431/2023) for the same factual events, in addition to all the parties already sued in the legal proceedings previously commenced.

Given the obvious reasons for a connection (part-subjective and part-objective), in the same writ of summons the Judge was asked to order an immediate preliminary joinder of the cases to avoid duplicate decisions, and of course to expedite and economize the lawsuit.

The hearing for the appearance of the parties was held on 25 September 2023, with the next hearing scheduled for 22 April 2024.

2. Employment law disputes

As at 31 December 2023, tax disputes were pending for which the total relief sought, where quantified, was equal to approximately EUR 62.6 mln. In particular:

- o approx. EUR 46.5 mln as relief sought for which there is a “likely” risk of disbursing financial resources, for which provisions of EUR 39.5 mln have been made;
- o approx. EUR 16.1 mln as relief sought for disputes for which there is a “possible” risk of disbursing financial resources.

Below is the summary information on the most significant disputes pending as at 31 December 2023.

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

The transaction for the sale of the “back office” business unit of Banca MPS to Fruendo, dating back to 1.1.2014 for 1064 resources, was declared unlawful in all levels of proceedings and resulted in the reinstatement with the Parent Company of 452 plaintiffs (1.4.2020), at the same time seconded to the company.

It should also be noted that in the case of the transfer of a branch of business deemed unlawful, the Court of Cassation, with reference to the salary obligation incumbent on the transferor, has ruled in a manner that differs from the settled opinion of the Court of Cassation itself. In fact, numerous rulings, issued starting from July 2019, stated that, in the event that the transfer of the employment relationship, in the broader context of the transfer of business units, is declared unlawful, the transferor employer, who does not reinstate the employees, is still liable to fulfil the remuneration obligations in addition to those fulfilled by the transferee employer, since the principle that the payment made by the latter would discharge the former is considered not applicable to the case in question.



Based on this change in case law (“double remuneration”), as at the reporting date of these Consolidated Financial Statements, 196 workers involved in the transfer of the business unit and recipient of the above rulings in their favour, have sued the Parent Company in order to request the remuneration allegedly due. These actions were lodged before the Courts of Siena, Florence, Mantua and Rome, with hearings currently scheduled between February 2024 and March 2025.

The progress of litigation, in its various stages, has led to negotiations for the settlement of disputes that have resulted in 259 settlements to date.

In addition, writs of summons were served by 2 workers requesting the Bank to return the portion of social security contributions charged to them in the spontaneous execution of the unfavorable rulings on so-called “double remuneration”. By appeals filed on 26 September 2022, the Bank contested these claims. On 14 February 2024, the 2 positions were settled before the Labour Division of the Court of Siena.

With reference to the “unlawful contract” line of the suit, a first group of appeals by Fruendo workers (52 then reduced to 32 following waivers/settlements) was rejected at first instance by the Court of Siena on 25 January 2019. This ruling was challenged by 16 workers before the Court of Appeal of Florence Labour Law Division which, on the other hand, ascertained the illegitimacy of the contract, ordering the reinstatement in service of 14 workers (as for 2 workers, the matter of the dispute was declared to have ceased to exist following waivers/conciliations), which was implemented with effect from 1 March 2022. The case is currently pending before the Court of Cassation, with a hearing set for 20 March 2024.

With regard to the two disputes brought before the Court of Padua by a total of 13 workers, they were closed with a settlement on 24 October 2022.

Further actions were filed to ascertain the unlawfulness of the contract by 37 workers of Fruendo, all of which were brought before the Court of Siena –Labour Law Division:

- for two groups of applicants (18 in total) who have filed collective disputes, rulings in favour of the Bank were issued in first instance by the Court of Siena Labour Law Division, which were challenged before the Court of Appeal of Florence: next hearing 27 February 2024;
- for another group of applicants (18 in total), a first instance decision is currently pending before the Court of Siena, Labour Law Division, next hearing date 14 February 2025;
- for the only plaintiff who filed an individual case, the Court of Siena Labour Division, on 20 October 2023, issued a ruling in his favour; the Parent Company is carrying out the assessments necessary for the execution of the ruling.

3. Tax disputes

As at 31 December 2023, tax disputes were pending for which the total relief sought, where quantified, was equal to approximately EUR 42.2 mln. In particular:

- o approx. EUR 17.7 mln as relief sought regarding disputes for which there is a “likely” risk of disbursing financial resources, for which provisions of approx. EUR 17.3 mln have been made;
- o approx. EUR 24,5 mln as relief sought for disputes for which there is a “possible” risk of disbursing financial resources.

Risk linked to representations and warranties given in the transfer and demerger of non-performing loans

In execution of the 2017-2021 Restructuring Plan, the Group has launched an important destocking plan for non-performing loans with the aim of significantly reducing its NPE ratio. As part of these transactions, indemnities are envisaged to be paid to the transferee counterparties of non-performing loan portfolios if the representations and warranties (R&W) issued are not true.

In this regard, note the securitisation transaction carried out by the Group in December 2017 in favour of Siena NPL which resulted in the cancellation of bad loans for a gross exposure of over EUR 22 bn, whose R&W expired on 31 July 2021. At the reporting date of these consolidated financial statements, almost all claims received by the deadline were reviewed, of which a small percentage were assessed as well-founded and were paid.

Also of note are: (i) the “Morgana” transaction in the 2019 financial year, which involved EUR 663 mln of gross exposure of lease secured non-performing loans, whose representation and warranties were due in October 2021 and for which, among the claims received and analysed, a small portion that was not yet paid was deemed to be well-founded; (ii) the “Hydra-M” demerger in 2020 concerning EUR 7.2 bn of gross non-performing loans whose R&W reached expiring on 1 December 2022 and for which all claims received were analysed and paid when deemed justified; (iii) the “Fantino” sale transaction for the year 2022 concerning EUR 0.9 bn of non-performing loans,



whose representation and warranties, with the exception of those given in favour of the transferee Intrum expired on 28 October 2023, shall expire within the first half of 2024 (Amco Spa and Illimity Spa). In relation to this sale, as at 31 December 2023 all the claims received were analysed and, where deemed justified, paid; (iv) the “Mugello” sale transaction in 2023 concerning EUR 0.2 bn of non-performing loans, whose representation and warranties will expire in the first quarter of 2025; to date, no claims for compensation have been notified.

The total relief sought of these transactions as at 31 December 2023 amounted to EUR 306.9 mln, of which around EUR 95.5 mln classified as “likely” risk of disbursing financial resources and around EUR 211.4 mln as “possible” risk of disbursement.

For all the aforementioned transactions, a risk remains limited to that part of the claims already analysed and considered non-indemnifiable by the Bank in addition, where present, to the residual component of claims to be analysed.

In general, the risk provisions for these transactions, amounting to EUR 132.6 mln as of 31 December 2023, are also determined through the use of statistical techniques to take into account the overall expected risk, if the claims are not fully analysed and/or the expiry date has not yet matured.

Compensation for transactions in diamonds

With reference to the “diamonds” case and the allegations of self-money laundering, the Public Prosecutor’s Office at the Court of Siena, as part of the criminal proceedings, issued a request for dismissal on 12 September 2022 versus the natural persons (4 former executive managers and the only executive manager still employed), who had been investigated for self-money laundering and also issued a decree for dismissal with regard to the Bank as a party bearing administrative liability and has also ordered the revocation of the preventive seizure issued in relation to the offence of self-money laundering pursuant to Italian Legislative Decree no. 231/2001, for the amount of EUR 0.2 mln.

The dismissal with respect to the Bank was transmitted to the Attorney General of the Court of Appeal of Florence, which endorsed it on 16 November 2022, while the Preliminary Investigations Judge issued a decree of dismissal against the natural persons on 5 October 2022.

With regard to the criminal proceedings pending before the Court of Rome, listed under no. 44268/21 concerning the offences of aggravated fraud, against only natural persons, including 5 former members of the Bank, and 8 employees, the first preliminary hearing was held and then postponed to 30 January 2024 for issues concerning notification defects against some defendants.

At that last hearing, the Preliminary Hearing Judge acknowledged the regularity of the notifications and only one offended party filed a civil action against the representatives of Diamond Private Investment S.p.A. in liquidation (“DPI”). The next hearing is scheduled for 12 March 2024.

About the same case, additional criminal proceedings for the offences of aggravated fraud, self-money laundering and hindering the exercise of the functions of Public Supervisory Authorities were commenced before the Public Prosecutor’s Office at the Court of Milan. On 28 September 2021 the Public Prosecutor made a request for committal for trial, against seven former executive managers (of which five in the main line of litigation) and the Chief Executive Officer and pro tempore General Manager of the Bank.

At the hearing of 22 June 2023, the issue of lack of territorial jurisdiction was discussed and at the hearing of 10 July 2023, the Preliminary Hearing Judge upheld the contested procedural issues raised by issuing three judgements of lack of jurisdiction: (i) in favour of the Roman Judicial Authority for the fraudulent claims against the representatives of DPI and the Bank; (ii) in favour of the Siena Judicial Authority for the hypothesis of self-money laundering and obstruction to the functions of the Public Supervisory Authorities challenged against the Bank’s managers and (iii) in favour of the Verona Judicial Authority for the alleged offences concerning Banco BPM.

With regard to the crime of self-money laundering and obstructing the functions of the Public Supervisory Authorities, on 6 October 2023 the file was sent to the Public Prosecutor’s Office at the Court of Siena, and on 20 November 2023, the Public Prosecutor of Siena filed a request for dismissal.

In these proceedings, the Parent Company is not involved as party with administrative liability pursuant to Italian Legislative Decree 231/2001.

In 2018, the Board of Directors resolved to pass a compensation transaction that provides for the payment of a fee to customers up of an amount equal to the latter had originally paid to DPI for the purchase of stones, with the simultaneous transfer of the same to the Parent Company and the completion of the transaction.



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 returned.

As at 31 December 2023, the transactions completed represented 92.3% of the total volume of diamond offers reported by the Parent Company. Residual provisions for risks and charges recognised against the relief initiative were equal to EUR 2.2 mln at 31 December 2023. As at the same date, the stones returned were recognised for a total value of EUR 62.6 mln.

ESG Risks

In consideration of the increasing importance played by ESG risk factors in regulations, government policies and stakeholder awareness, and also following specific initiatives promoted by the ECB, in particular on Climate-related and Environmental Risks - C&E Risks (see “Guidelines on Climate-related and Environmental Risks” November 2020, ECB Climate Stress Test carried out in 2022, and the One-off Fit-for-55 climate risk scenario analysis exercise activated at the end of 2023), the Group is pursuing, as part of the multifunctional ESG Programme, a multi-year programme of activities relating to the integration of C&E risk factors into the Group’s risk management framework and governance and strategic processes. The “ESG Risk Action” project is specifically aimed at identifying, measuring and managing ESG risks (with climate and environmental risks as the first priority).

For further details on sustainability governance and ESG risks, please refer to the corresponding paragraph in the 2023 Non-Financial Statement.

The process for the identification, verification of materiality and relevance of C&E risks, preparatory to the definition of the Risk Appetite Statement, has evolved during 2023 mainly regarding materiality analysis in the short/medium/long term and has taken into consideration the risk factors linked to the climate according to the perspective of analysis of the so-called “transmission channels”, according to which these risks are significant when they impact primary financial risks (credit, operational, market and liquidity risk), already known and treated in the Group risk management framework.

The approach implemented has classified as *material* in the short, medium and long term, in continuity with previous years, the C&E risks affecting credit and operational risk, the latter in its secondary reputational risk component.

For more details on the identification process adopted, please refer to the Non-Financial Statement (NFS) under the section “Risk management related to climate change” and Pillar 3 Disclosure, available on the MPS website.

Credit risk, based on the risk exposure that can be assumed based on the analysis of possible transmission channels, was also found to be “very high” (transition risk) and “high” (physical risk), depending on the potential exposure associated with each C&E risk factor, as extensively detailed in the following sections which describe the measures of exposure to transition and physical risks by companies and private individuals.

During 2023, exposure to C&E risks related to credit risk, as material and of high relevance, were subject to monitoring i) within specific Key Risk Indicators (KRIs) defined in the Risk appetite statement (RAS) for the private physical risk and non-financial company transition risk components and ii) in the operational Key Performance Indicators (KPIs) in the case of the private and physical transition risk components for non-financial companies.

It should be noted that in the formulation of the 2024 RAS, the components of private and physical non-financial corporate transition risk will also be monitored based on specific KRIs, including respective operational limits, assigned to the units most involved in the operations/areas concerned.

The C&E risks, as well as being regularly monitored and reported to management, in its two main components of transition risk and physical risk, which focus on credit risk, will also be subject to stress tests aimed at assessing the impacts of adverse scenarios for ICAAP purposes, also factoring in the experience gained from the ECB 2022 Climate Stress Test and further developments of analyses based on climate scenarios integrated with the macroeconomic scenarios used in ordinary stress processes.

The analysis of the materiality of C&E risk factors on other major financial risks (market, liquidity and operational) was carried out using “what-if” analyses aimed at stressing:

- for liquidity risk, the liquidity buffers consisting of deposits made by retail customers and non-financial companies, depending on the occurrence of physical risk events concentrated in very short periods of time and on geographical areas of impact (entire province for flood risk, individual municipality for landslide risk); a run-off of the deposits have been assumed both in a situation of crash (withdrawal of 100% of the deposits in the affected area) and based on similar events actually occurring (e.g. flood in the Marche region in September 2022). During 2023, certain refinements were made to the materiality



assessment methodology through: (i) introduction of cumulative deposit runoff scenarios, (ii) extension of potential risk factors to natural events related to wind and fire, (iii) execution of assessments based on short/medium and long-term scenarios/horizons and finally (iv) introduction of the assessment of a component of potential impact on liquidity determined by the pressures of climate variables on the economic activities of companies and therefore on the draft of margins available from the same counterparties;

- for market risk, the market value of non-financial corporate portfolios (bonds and equity) and risk exposure to non-financial and non-collateralised counterparties relating to positions in derivatives; the materiality check on market risk is carried out over a short-term period of time, taking into account that C&E risks tend to be non-material in the medium/long-term, as the securities and financial instruments portfolios can be liquidated in the medium/long-term and can be modified according to the evolution of risks (especially transition risks) to which the issuers and related counterparties are subject;
- for operational risks, business continuity based on a number of scenario drivers, such as (i) customer hardship (based on deposit pools), (ii) employee hardship (based on the number of non-operating employees in the scenario), (iii) operational hardship (based on the number of branches closed), (iv) economic damage (based on the loss of profitability for the Bank at risk within the scenario), and (v) physical damage (based on loss of value of owned properties); as for the other risks, the range of risk drivers analysed and the time periods over which materiality is assessed were extended.

The analyses showed a non-materiality of the C&E risks with respect to these risks. The Group carries out such analyses periodically, on the basis of indicators and thresholds suitable to accommodate changes in the structure of the positions and activities concerned with consequent implementations in the risk management methodologies and processes and possible activation of related operating limits.

We provide below a summary of the analyses carried out by the Group during the financial year, aimed at identifying the exposure of credit portfolios to environmental/climate change factors; for details, we refer to the information in the Consolidated Non-Financial Statement (<https://www.gruppompis.it/sostenibilita/index.html>).

Enterprises transition risk

With regard to **transition risk**, understood as a financial loss that a company may incur, directly or indirectly, as a result of the adjustment process towards a low-carbon and more environmentally sustainable economy, in relation to corporate customers, the Group quantified the exposure to such risk based on the “distance from sustainability” of the counterparties (or their respective individual credit exposure) through an indicator, internally calculated, which express the alignment of the financed entity and its activity to a transition path aimed at full environmental sustainability. A higher value of the indicator corresponds to less distance from full environmental sustainability of the activity and its financing and, consequently, a lower transition risk.

As at 31 December 2023, the level of the transition risk exposure indicator, applied to a total cash and unsecured exposure⁵⁴ of approximately EUR 40.8 mln⁵⁵ referring to non-financial companies, was 27%. This indicator, as a Key Risk Indicator within the Group’s Risk Appetite Statement (RAS), was monitored on a quarterly basis and was substantially stable throughout the year 2023.

New TEC CCM transition risk indicator

Among the aspects that most affect the transition/credit risk of manufacturing enterprises, particular importance has the objective and related risk in climate change, resulting from the impact of manufacturing and non manufacturing human activities, through the emissions of GHGs (Climate Changing Cases or Green House Gases) released into the atmosphere.

To better understand the specific scope of risk and strategic aspects related to climate change and its mitigation through the process of energy transition and reduction of GHG emissions, starting from the last quarter of 2023, the Group has introduced a specific “emissions” transition risk indicator, defined as Transition Exposure Coefficient or TEC CCM (Climate Change Mitigation). This indicator will be included among the 2024 RAS indicators.

The new indicator focuses on the risk factors specifically related to the reduction of GHG emissions and therefore to the energy transition; and is therefore representative of the portion of an exposure subject to transition risk. To calculate the TEC CCM, BMPS combines elements assessed at the level of a company’s business sector with customer-specific elements collected through a questionnaire administered to corporate customers.

The TEC CCM is also clustered into five qualitative ranges in order to classify the positions of a given scope into transition risk classes: Very High, High, Medium, Low and Very Low. The KRI RAS introduced for 2024 is based

⁵⁴ The figure refers to the total amount used by the customer in its deposits and unsecured loan component.

⁵⁵ Scope with assigned NACE business segment. The overall scope is EUR 41.33 bn.



on the TEC CCM, on which the respective operating limits are defined and adapted to the responsible units. The objectives in terms of the containment of the average portfolio TEC will be more suitable to address the “financed” GHG emission reduction plans incorporated in the strategies of the Net Zero Banking Alliance initiative and, in general, to the path towards making the Bank’s assets sustainable from a CCM perspective.

As at 31 December 2023, the overall measure at Group level of exposure to transition risk, (measure entered as KRI in the 2024 RAS context), was 43.5%, as shown in the table and graph below, which show the distribution of loans within the scope (EUR 41.3 bn) on the classes of TEC CCM.

■ Montepaschi Group

EUR/ mln

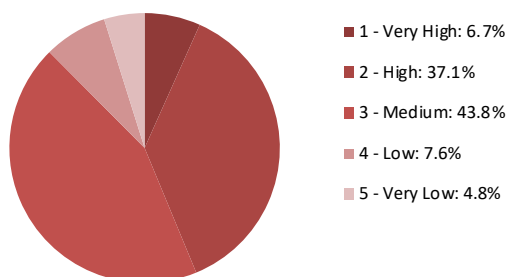
CCM Level risk	Credit CGA	Risk exposure	Average TEC
0 - TEC Null	5,424	0	0.0%
1 - Very low	1,738	203	11.7%
2 - Low	2,725	629	23.1%
3 - Medium	15,730	6,400	40.7%
4 - high	13,312	8,716	65.5%
5 - Very high	2,401	2,041	85.0%
Total	41,331	17,987	43.5%

GMPS Loans & Advances to Non-Fin. Companies

Transition Risk

Loans by TEC-CCM class: 31/12/2023

(given a not null TEC, about 35,9 €mld)

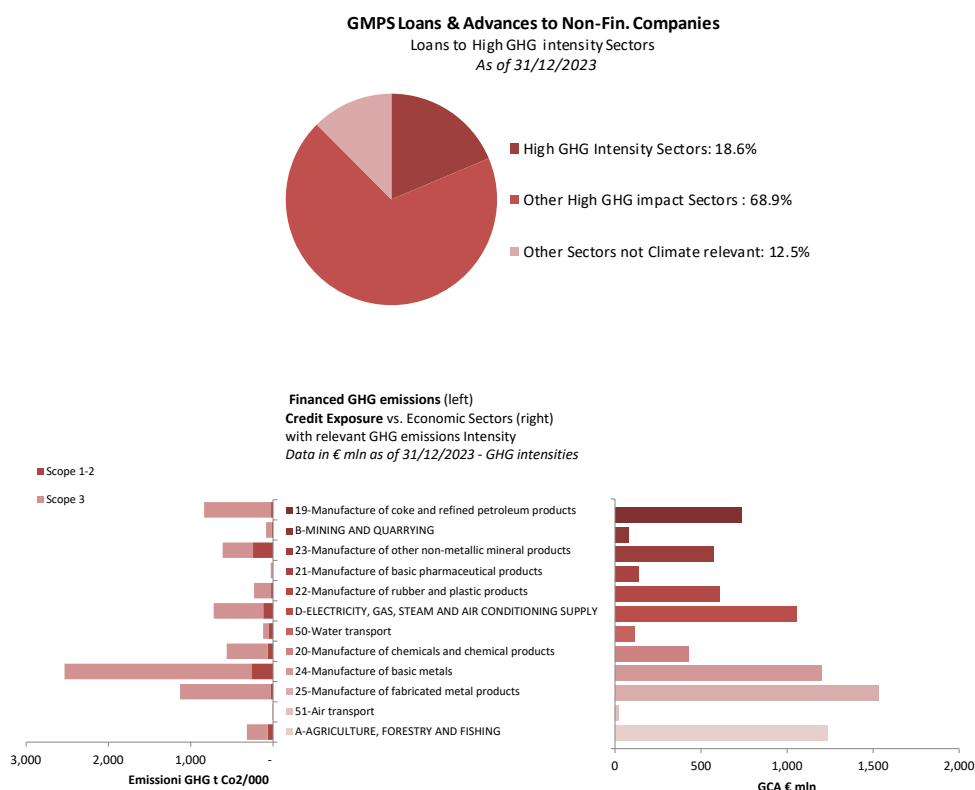


GHG emissions

With reference to receivables from non-financial companies, on a total reference scope of approximately EUR 41.3 bn⁵⁶, the following graphs show the breakdown of loans by different types of sectors.

The “GHG-intensive sectors” are identified in line with the top ten groups of NACE/ATECO found to have the highest GHG emissions in the ECB 2022 Climate Stress Test exercise as system median. The “Other Sectors of climate-relevant activities” are those indicated as sectors that “highly contribute to climate change” in the ITS EBA 2022/01 for the preparation of the Pillar 3 Public Disclosure (Pillar 3 – ESG).

⁵⁶ The figure of EUR 41.3 bn is an operating figure referring to the total amount of credit used, both for deposits and unsecured loans.



The following graph shows the detail of the grouping based on the reference NACE/ATECO, by GHG intensity decreasing from top to bottom, referring to the sectors with high GHG emission intensity equal to 18.6% (about EUR 7.7 bn) of the total area observed.

The loans granted contributed to “financed emissions⁵⁷” for 19.7 million tonnes, of which 36.5% are attributable to sectors with a high intensity of GHG emissions and 61.5% to other sectors with climate-altering activities. The two sectors coincide with loans to sectors that “highly contribute to climate change”, according to the EBA ITS for Pillar3 – ESG (equal to approximately 87.5% of total credit exposure) to which approximately 98% of the financed issues are thus attributable.

■ MPS Group

GHG EMISSIONS & CREDIT EXPOSURE vs. NON-FIN.CORPORATES

Co2 eq. /000 tons, € mln as of 31/12/2023

	FINANCED EMISSIONS			CREDIT EXPOSURE	
	Scope 1-2-3		of which Scope 3		
	Co2 eq. /000 tons	%of total	Co2 eq. /000 tons	€ mln	%of total
High Intensity CST Sectors	7,184	36.5%	6,278	7,707	18.6%
highly contrib. Other	12,094	61.5%	11,078	28,467	68.9%
highly contrib. Total	19,278	98.0%	17,356	36,173	87.5%
Other "not relevant" Sectors	398	2.0%	363	5,157	12.5%
Total Non-Fin. Corporate	19,676		17,719	41,331	

Residential mortgage transition risk

For private customers, the energy performance labels (APE in Italy, EPC in the European context) of mortgaged properties are the most significant indicator of emissions and more generally of the attitude towards the issue of climate change mitigation. In order to identify transition risk, the Group is currently placing this risk in direct relation to the characteristics of the properties offered as mortgage security, being therefore able to provide a first proxy of alignment to the transition, through characteristics of energy efficiency.

⁵⁷ “Funded GHG emissions” represent the part of GHG emissions produced by a counterparty (production company) corresponding to the Group’s financing share with respect to the company’s total assets.



The level of energy performance of residential mortgage properties, and the related information on consumption and GHG emissions were monitored during 2023 for new mortgage underwriting flows.

During 2023, the process of digitising energy labels was strengthened and made mandatory directly at the signing of the mortgage. A data remediation activity was carried out to recover the labels of already existing loans.

As at 31 December 2023, approximately 42.5% of the residual exposure on residential mortgages secured by real estate is covered by the energy label (31.5% at the end of 2022).

At the same date, the component of mortgages covered by the energy label was broken down by APE levels according to the table and graph below.

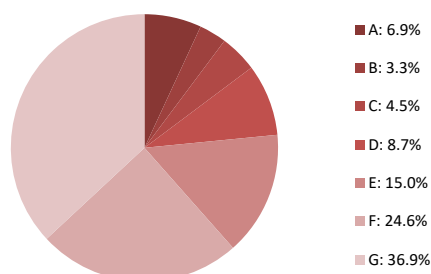
■ **MPS Group**
EUR/mln

EPC label level	outstanding	%
A	889.41	2.9%
B	426.49	1.4%
C	585.40	1.9%
D	1,118.15	3.7%
E	1,934.38	6.4%
F	3,167.56	10.5%
G	4,756.06	15.7%
Total mortgages covered by actual EPC	12,877.45	42.5%
Without/Unknown EPC	17,409.39	57.5%
Total residential mortgages	30,286.84	100.0%

GMPS Residential Mortgages

Actual EPC level distribution

Loans by actual EP level of collaterals: 31/12/2023

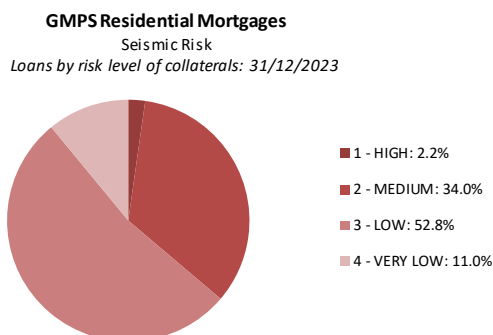
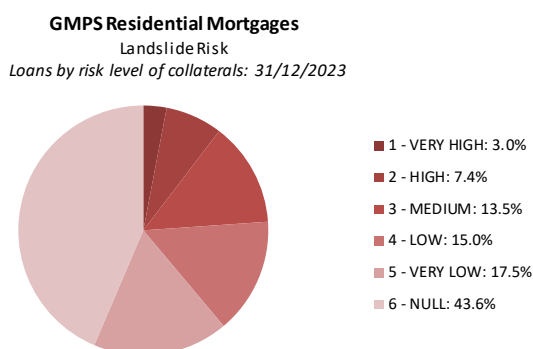
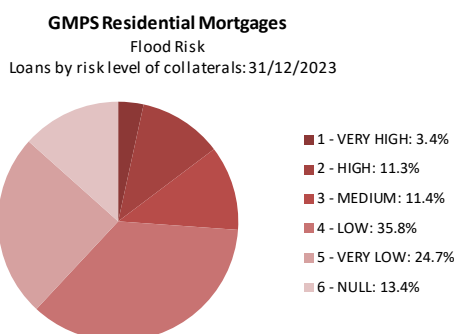


Physical risk of residential mortgages

With regard to **physical risk**, the Group monitors the exposure of credit portfolios to physical risk factors. In particular, the focus was on the risk of *private customers*, with an analysis aimed at the properties guaranteeing residential mortgages, based on the location of the properties themselves. The exposure in scope was mapped by geolocating the real estate, and thus attaching the appropriate area of the applicable risk factor mapping (at the municipality level for 2023, while shifting to point location by census cell for hydro-geological risks or specific grid for other risks for monitoring 2024 RAS KRIs). Throughout 2023, the specific factors considered to determine risk exposure measures were floods, landslides (risks largely considered climate-related) and seismic (the latter as environmental not related to climate change). The risk data used to determine the RAS Key Risk Indicators (KRIs) monitored quarterly throughout the year was obtained from ISPRA (Institute for Environmental Protection and Research) at municipal level.



As at 31 December 2023, 24.74% of the total outstanding exposure in residential mortgages for EUR 30.3 bn showed real estate collaterals in areas classified as “high” or “very high” flood risk or landslide risk. The graphs below show the breakdown of residential mortgage loans at the level of riskiness of the location of their collateral properties, as regards the monitored risk factors.



Physical risk for non-financial companies

The “transmission channel” of the impacts of **physical risk** on **companies** consists of the damages that events of **acute physical risk** (landslides, floods, atmospheric precipitation, hurricanes, fire) may cause to the company’s production assets, possibly resulting in prolonged business interruptions that may compromise the company’s regular operation with consequences of loss of profitability or even closure and bankruptcy.

There is also another way of transmitting physical/climatic events to the prospective profitability and solvency of a production company, transitioning from the gradual but inexorable change in the conditions in which the production unit operates, which may compromise the context or the business model. In this case, we refer to a **chronic physical risk**, linked, for example, to increased temperatures or the frequency of precipitation, conditions that could compromise the production process especially in those sectors of activity that are more dependent or exposed to such conditions (e.g. agriculture or activities carried out outdoors, such as construction, etc.).



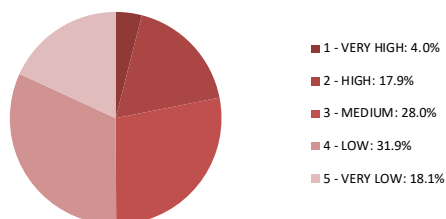
Already monitored during 2023 through KPIs, the physical risk of non-financial corporations becomes part of the 2024 RAS as a KRI, and as such will be monitored and subject to limitations placed on the structures responsible for its operations.

As at 31 December 2023, 21.9% of deposits and unsecured loans to non-financial companies, equal to approximately EUR 41.3 bn, were exposed to “high” or “very high” physical risk (acute or chronic).

The following graphs show the distribution of general physical risk, of the main acute physical risk factors (landslide and flood), and finally seismic risk on loans to non financial companies.

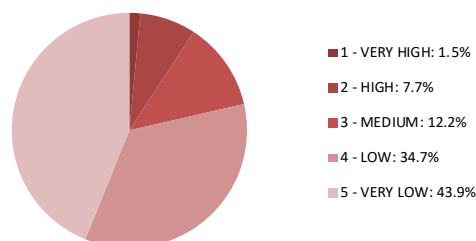
GMPS Loans & Advances to Non-Fin. Companies

Physical Risk
Loans by risk class : 31/12/2023



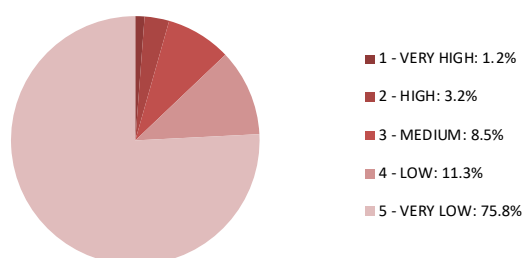
GMPS Loans & Advances to Non-Fin. Companies

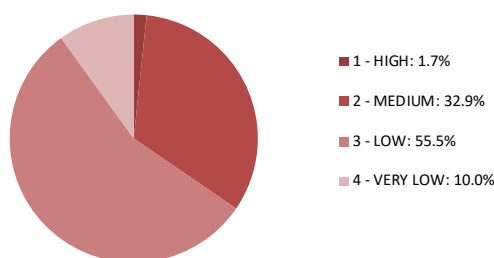
Flood Risk
Loans by risk class: 31/12/2023



GMPS Loans & Advances to Non-Fin. Companies

Landslide Risk
Loans by risk class: 31/12/2023



**GMPS Loans & Advances to Non-Fin. Companies**Seismic Risk
Loans by risk class:31/12/2023

A further risk associated with ESG aspects, considered relevant for the MPS Group, is the reputational risk. Starting from 31 December 2022, a component was included in the RAS monitoring indicator that takes into account and weights, with the other items relevant to the Group's stakeholders, aspects of ESG risk such as:

- the transition risk posed on investment service customers in terms of number and volumes of portfolios affected by financial products of potentially controversial issuers in terms of ESG issues;
- loans to potentially controversial counterparties, again with reference to ESG aspects;
- the external perception of the Group's focus to ESG issues as resulting from sustainability ratings reported by independent Agencies on the Group.

During 2023, the ESG component of the Reputational Risk Indicator decreased from 76.3 to 71.3, indicating a decrease in reputational risk due to ESG aspects.

In the specific area of investment services for customers, the issue of sustainability and integration of ESG factors has confirmed its relevance in the course of 2023 with an increasing offer of products with underlying strategies supporting sustainability. During the fourth quarter of 2023, in compliance with ESG regulations, the customer profiling questionnaire (MiFID questionnaire) was developed with the introduction of specific questions aimed at gathering customer preference with respect to products that invest in activities "taxonomy-aligned" – Reg. EU 2020/852 (pursuant to letter a), "sustainable" pursuant to Reg. 2019/2088 - SFDR (pursuant to letter b) and products that consider the PAI – "Principal Adverse Impacts" (pursuant to letter c) of Art. 2 (7) of the MiFID II Delegated Regulation, in order to ensure greater consistency between the product offer and the overall needs of Customers. Lastly, the specific adequacy controls for ESG sustainability-related risks were also updated.

As part of the financing products offered to customers, the Group has defined a commercial offer that includes different types of ESG products attributable to two macro-categories: i) financing green projects with the purpose of incentivising those that are aimed at reducing environmental impact and ii) financing products that provide for a change in the interest rate applied to the customer upon the achievement by the latter of specific ESG objectives set out in the contract (so-called sustainability linked loan).

All loans are recognised as financial assets measured at amortised cost as they are part of an HTC business model and consistent with the definition of Basic Lending Arrangement. As far as sustainability linked loans are concerned, to date the only products offered by the Group exclusively provide for marginal adjustments to the contractually stipulated interest rate based on the achievement of specific key performance indicators (KPIs) of a socio-environmental nature and directly related to customers' activities, including, by way of example: cutting polluting emissions, reducing waste, and reducing accidents at work. These clauses are SPPI compliant as the greater sustainability of the activity determines a downward revision of the rate, such that the payments of principal and interest, albeit with lower margins, remain compliant with a Basic Lending Arrangement.

During the year, the Group disbursed sustainability linked loans for a total of EUR 175 mln.

For a complete review of products with environmental characteristics and more generally linked to sustainability, please refer to the paragraph "Sustainable financing products" of the 2023 Non-Financial Statement (NFS).

Finally, with regard to other relevant environmental issues, in order to confirm the use of renewable energy, the Group has purchased "guarantees of origin" in 2023 - electronic certifications attesting the renewable origin of the sources used by the production plants. The cost of these certifications is recognised in the income statement under other administrative expenses.



Financial risks of investment services

Foreword

The following section on financial risks of investment services was written as part of the “Operational Risk” section in line with the compulsory framework for preparation of the Notes to the Financial Statements, even though this subject presents specific characteristics and involves organisational levels of authority that are not directly traceable to operational risk management.

Wealth risk management process and methods

The Group pays particular attention to the governance of risks regarding investment services that are a direct and indirect result of the risks incurred by customers in relation to the performance of investment services. Governance of these risks is aimed at protecting customers and at preventing any potential negative impacts on the Group in terms of operational and reputational risk.

Organisational responsibility at Group level for supervising financial risk measurement, monitoring and control activities and for mapping investment products/services for the purposes of MiFID adequacy is an integral part of the Group’s integrated risk management responsibilities, and is assigned centrally to the Market Risk and Wealth Risk Management Service unit, within the Risk Management function. This is to ensure centralised governance of the direct and indirect risks which the Group incurs during the course of its operations.

“Wealth risk management” focuses on the overall set of operational and management processes as well as measurement and monitoring tools/methods used to ensure overall consistency between customers’ risk profiles and the risk of investment products and portfolios offered to - or in any case held by - customers.

The investment products (of the Group and of third parties), whether or not included in the overall offering to the Group’s customers, are mapped for risk on the basis of quantitative measurements of market and credit risk factors and makes assessments of the liquidity, complexity, and sustainability characteristics of these products. Product mapping is one of the guiding criteria for carrying out investment adequacy checks as part of the consulting service offered.

For the sake of simplicity, investment product risk mapping, performed with reference to individual risk macro-factors, is grouped under specific risk categories.

A special focus is given by the Group to the monitoring and prevention of potential financial and reputational risks which investment services, particularly in contexts of financial crisis, may generate as a consequence of increased market volatility. The fast-moving and not always predictable market trends may result in rapid changes in product risks and generate potential financial losses, as well as prompting a changing attitude by customers towards their own financial investments.

Customers have regularly been informed of changes in the risk of financial instruments held, so as to ensure timely disclosure transparency and facilitate possible decisions aimed at rebalancing the risk profile of their investments.

Consultancy services offered

The strategic choice of the Parent Company 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 manager. 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 bonds and the certificates issued by the Group.



The advisory service is offered by the Parent Company on the basis of two different methods:

- a “basic” advisory, aimed at verifying the suitability of a single specific investment recommendation, or several investment transactions or several disinvestment transactions in relation to the risk of the customer’s investment portfolio as a whole. In this regard, the adequacy model adopts a multivariate control approach to the individual risk factors, taking the risk of the customer’s portfolio, including the recommended investment product(s), as a reference;
- an “Advanced” advisory, aimed at verifying the suitability of the overall set of advised transactions based on a range of investment/disinvestment transactions targeted at the construction of one or more portfolios of advanced advisory, consistent with the respective investment objectives, in reference with an optimal asset allocation that aims at obtaining maximised future returns, based on the investment portfolio risk given the customer’s risk profile. In this regard, the adequacy model adopts a multivariate control approach to the individual risk factors, taking the risk of the customer’s portfolio, including the recommended investment product(s), as a reference.

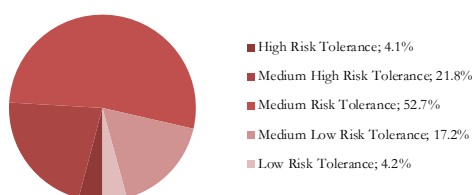
Wealth risk management activities cover the entire distribution perimeter of the network of Group branches, the investment services operated by Banca Widiba.

Banca MPS and Banca Widiba adopt customer profiling methods and rules to determine the indicators underlying the customer’s risk profile, using the MiFID questionnaire in line with MiFID II (Directive 2014/65/EU <http://eur-lex.europa.eu/legal-content/IT/ALL/?uri=CELEX:32014L0065&qid=1435045139484>) which, together with the MiFIR o Markets in Financial Instruments Regulation (Regulation (EU) 600/2014), regulate the financial products market.

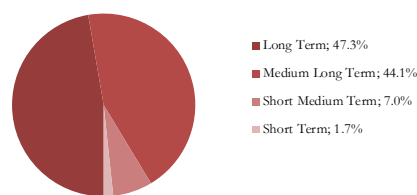
From 1 August 2022, the regulatory indications are endorsed contained in Delegated Regulation (EU) 2021/1253 amending Delegated Regulation (EU) 2017/565, which supplements the MiFID II Directive, to ensure that intermediaries conduct an assessment of the sustainability preferences of their customers. The customer profiling questionnaire captures the degree of customer preference with respect to environmental, social and governance (ESG) sustainability preferences.

The graphs below show the distribution as at 31 December 2023 of the Investment Objective, Time Horizon and Interest in Sustainability indicators issued by Retail customers of the group who have fully completed the MiFID questionnaire and who hold positions in investment products.

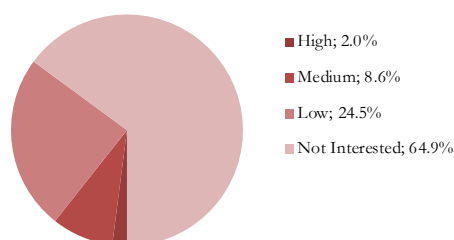
Retail Clients - Investment Objective
Montepaschi Group - 31/12/2023



Retail Clients - Investment Horizons
Montepaschi Group - 31/12/2023



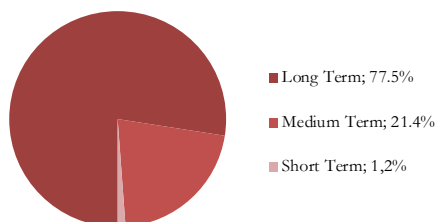
Retail Clients - Sustainability Preference
Montepaschi Group - 31/12/2023



At the end of 2023, the portfolios held by Consumer/Retail customers on the basis of formalised “advanced” advisory proposals to obtain optimum asset allocation were mainly distributed into the recommended, especially long-term, asset allocation macro-classes.



Retail Clients - Portfolio Management Advisory
Preferred Asset Allocations
 Montepaschi Group - 31/12/2023



Section 3 - Insurance companies risks

Neither the Group nor its subsidiaries perform insurance activities. However, the Group has holdings in the share capital of insurance companies, such as “AXA MPS Assicurazioni Danni S.p.A.” and “AXA MPS Assicurazioni Vita S.p.A.”. These equity investments are carried at equity and are recognised under consolidated assets, item 70 “Equity investments”. Pursuant to prudential supervisory provisions, the Group deducts the amount of such equity investments that exceeds certain regulatory thresholds from its own funds and holds a capital requirement against the amount not deducted.

Section 4 - Other companies risks

There are no significant additional risks for the remaining companies included in the scope of consolidation that are not part of the Banking Group or insurance companies. With regard to the company MPS Tenimenti Poggio Bonelli e Chigi Saracini Società Agricola S.p.A., it should be noted that the book value at which the properties, plant and vineyards are recognised is consistent with the values inferred from specific appraisals and valuations. The Group meets a capital requirement for this equity investment calculated in accordance with prudential supervisory provisions.



Part F – Information on consolidated shareholders' equity

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Section 2 – Regulatory banking capital and ratios	489



Section 1 - Consolidated shareholders' equity

A. Qualitative Information

The Group pursues strategic objectives focused on the quantitative and qualitative strengthening of capital, on the structural rebalancing of liquidity and on the achievement of sustainable levels of profitability, compatible with the risks assumed; through the close interaction between the processes of Multi-year Planning and Budget, Governance of the Risk Appetite Framework (RAF) and Capital Adequacy Assessment (ICAAP), a risk appetite is defined aimed at guaranteeing operational stability and at the same time quantifying resources useful for financing growth strategies.

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.

For these purposes, as part of the RAF, the target capitalisation levels are estimated annually, verifying, on the basis of the ICAAP process, that the capital adequacy is sufficient to guarantee compliance with the minimum requirements approved by the Board of Directors. Capital adequacy is also assessed prospectively and over a period of several years, under both normal and stress conditions, taking into account both the regulatory perspective, focused on compliance with operational capital requirements aimed at guarding against risks not covered by regulatory requirements, as well as further prudential assessments decided by the strategic supervision body.

The objective of capital adequacy is primarily pursued through the generation of positive income, as well as through the optimisation of risk-weighted assets; in addition, compliance with capital requirements is also guaranteed through specific actions to support total own funds, such as the issue of subordinated bonds.

Capital management is understood as a dynamic activity aimed at constantly seeking to optimise the capital components (ordinary shares and other capital instruments) in order to achieve objectives and implement identified strategies. In this respect, the Parent Company carries out coordination and guidance activities over the Banks and Companies belonging to the Group, monitoring the management of assets in each legal entity and issuing the appropriate guidelines.

The Group uses methodologies for the correct measurement of profitability, based on risk, by adopting these indicators also within the RAF framework, with related monitoring and management of the total expected risk/return profile.

In this context, the RAPM (Risk Adjusted Performance Measure) metrics are also used to make the appropriate assessments and provide the necessary indications, to the functions of the Parent Company and to the business units, for a timely recognition of the actual absorption of capital resources allocated and for the direction of future distribution choices; the capital is allocated to the business units on the basis of the expected development, return and estimated risk levels and is constantly monitored during the year to verify the achievement of the objectives and compliance with the minimum requirements defined internally.

The definitions of equity applied are those used in Supervisory Regulations: *Common Equity Tier 1, Tier 1 and Own Funds*. In addition, as part of the RAPM metrics, additional definitions of capital are used, such as:

- the Invested Capital, i.e. the amount of Shareholders' equity needed to achieve Tier 1 Capital values, whether determined ex ante as target levels or realised ex post.
- The Allocated Capital corresponds to the Total Internal Capital Requirement defined in the ICAAP.
- The capital absorbed, which corresponds to the capital actually at risk and is determined in proportion to the risk weighted assets (RWA) observed in the final balance.

According to the European Central Bank's final decision on capital requirements, as of 1 January 2024 the Group at the consolidated level must comply with a Total SREP Capital Requirement (TSCR) of 10.75%, which includes:

- a minimum own funds requirement - Pillar 1 ("P1R") of 8% (of which 4.50% in terms of CET1); and
- an additional Pillar 2 ("P2R") requirement of 2.75%, which is at the same level as in 2023, to be held at least 56.25% in the form of Common Tier 1 Capital - CET1 - and 75% in the form of Tier 1 Capital.

Moreover, with regard to Pillar II Capital Guidance (P2G), the Group has to maintain, on a consolidated basis, a requirement of 1.15%, down significantly from the previous 2.50%, to be fully met with Common Equity Tier 1, in addition to the overall capital requirement.



The overall minimum requirement in terms of Total Capital ratio, obtained by adding a Combined Buffer Requirement (CBR) of 2.52%, ⁵⁸is 13.27% (for 2023 it was 13.52%).

The overall minimum requirement in terms of CET1 ratio is 8.56%, the sum of P1R (4.50%), P2R (1.55%⁵⁹) and CBR (2.52%); the overall minimum requirement in terms of Tier 1 is 10.58%, including P1R of 6%, P2R of 2.06%⁶⁰ and CBR of 2.52%.

⁵⁸ The Combined Buffer Requirement (CBR) consists of the Capital Conservation Buffer (2.50%) + Countercyclical Capital Buffer (0.017%); starting from 1 January 2024, the Bank is no longer considered an O-SII and is therefore no longer required to comply with the related buffer of 0.25%.

⁵⁹ Calculated considering 56.25% coverage of P2R from CET 1.

⁶⁰ Calculated considering 75% coverage of P2R from Tier 1.



B. Quantitative Information

B.1 Consolidated shareholders' equity: breakdown by business areas

31 12 2023

Net equity items	Prudential Consolidation	Insurance companies	Other companies	Consolidation cancellations and adjustments	Total	of which Group	of which minority interests
Shareholders' equity	7,454,052	304,317	111,303	(415,620)	7,454,052	7,453,451	601
Share premium	2	-	-	-	2	-	2
Reserves	444,241	366,862	69,488	(436,351)	444,240	445,298	(1,057)
Valuation reserves	29,190	10,620	3,738	(14,358)	29,190	27,929	1,261
- Equity instruments measured at fair value through other comprehensive income	(14,111)	-	-	-	(14,111)	(14,111)	-
- Financial assets (other than equity instruments) measured at fair value through other comprehensive income	(60,076)	-	-	-	(60,076)	(60,076)	-
- Tangible assets	121,894	-	3,747	(3,747)	121,894	121,673	221
- Cash flow hedges	1,600	-	-	-	1,600	1,600	-
- Exchange difference	2,984	-	-	-	2,984	2,984	-
- Non-current assets and group of assets held for sale	(2,409)	-	-	-	(2,409)	(2,409)	-
- Financial liabilities measured at fair value through profit and loss (changes in own credit worthiness)	8,369	-	-	-	8,369	8,369	-
- Actuarial gains (losses) on defined benefit plans	(47,198)	-	(9)	9	(47,198)	(47,198)	-
- Share of valuation reserves of equity investments valued at equity	10,620	10,620	-	(10,620)	10,620	10,620	-
- Special revaluation laws	7,517	-	-	-	7,517	6,477	1,040
Profit (loss) for the year - Group and minority interests	2,051,625	86,527	(4,296)	(82,231)	2,051,625	2,051,781	(156)
Net equity	9,979,110	768,326	180,233	(948,560)	9,979,109	9,978,458	651



B.2 Valuation reserves for financial assets measured at fair value through other comprehensive income: breakdown

Asset/Amount	Prudential Consolidation		Insurance companies		Other companies		Consolidation cancellations and adjustments		Total	
	Positive reserve	Negative reserve	Positive reserve	Negative reserve	Positive reserve	Negative reserve	Positive reserve	Negative reserve	Positive reserve	Negative reserve
1. Debt securities	17,255	(73,999)	7,969	(4,637)	-	-	(7,969)	4,637	17,255	(73,999)
2. Equity instruments	7,864	(26,479)	-	(4,503)	-	-	-	4,503	7,864	(26,479)
4. Loans	-	-	-	-	-	-	-	-	-	-
Total 31 12 2023	25,119	(100,478)	7,969	(9,140)	-	-	(7,969)	9,140	25,119	(100,478)
Total 31 12 2022	15,704	(173,983)	-	(11,360)	-	-	-	11,360	15,704	(173,983)

B.3 Valuation reserves for financial assets measured at fair value through other comprehensive income: annual changes

	31 12 2023		
	Debt securities	Equity instruments	Loans
1. Opening balance	(147,365)	(10,914)	-
2. Increases	93,078	5,469	-
2.1 Increases in fair value	81,976	2,616	-
2.2 Net losses (recoveries) on impairment	-	X	-
2.3 Reversal to profit and loss of negative reserves	11,093	X	-
2.4 Transfers to other component of equity (equity instruments)	-	2,837	-
2.5 Other increases	9	16	-
3. Decreases	2,457	13,170	-
3.1 Decreases in fair value	1,908	4,758	-
3.2 impairment provisions	-	-	-
3.3 Reversal to profit and loss of positive reserves: following disposal	490	X	-
3.4 Transfers to other component of equity	-	8,189	-
3.5 Other decreases	59	223	-
4. Closing balance	(56,744)	(18,615)	-



B.4 Valuation reserves for defined benefit plans: annual changes

	Internal funds	External funds	Provisions for employees severance pay	31 12 2023
Opening balance	(36,308)	(222)	(15,288)	(51,818)
Remeasurement of net defined benefit liability (asset):	(16)	6,230	(1,435)	4,779
Return on plan assets excluding interests	-	(15,643)	-	(15,643)
Actuarial gains (losses) arising from changes in demographic assumptions	59	7,164	1	7,224
Actuarially gains (losses) arising from experience adjustments	(133)	9,088	198	9,153
Actuarial gains (losses) arising from changes in financial assumptions	58	372	(1,634)	(1,204)
Changes in effect of limiting net defined benefit asset to asset ceiling	-	5,249	-	5,249
Gains (losses) on settlements	-	-	-	-
Others	36,253	(36,702)	(5)	(454)
Closing balance	(71)	(30,694)	(16,728)	(47,493)

The merger of seven internal funds into section B of the MPS Pension Fund, specifically described in section 10.5 “Defined benefit company pension funds” of Part B of these Notes to the Consolidated Financial Statements, resulted in a transfer of valuation reserves from “internal funds” to “external funds” of about EUR 36 mln, which was recognised in the line “Other changes”. The transaction also resulted in a positive effect, net of the related tax effect, of approximately EUR 6 mln recognised under the column “External provisions”, line “Revaluation of net defined benefit liability/asset”.

Section 2 – Regulatory banking capital and ratios

See the information on own funds and capital adequacy contained in the public disclosure (Pillar 3).



Part G – Business combinations

Section 1 – Business combinations during the financial period	491
Section 2 - Business combinations completed after the financial period	491
Section 3 – Retrospective adjustments	491



Section 1 – Business combinations during the financial period

1.1 Business combinations

1.1.1 Transactions included in the scope of application of the international accounting standard IFRS 3 “Business combinations”

No business combinations, as defined by IFRS 3, were carried out in 2023.

1.1.2 Business combinations under common control

On 24 April 2023 and 29 May 2023, the merger by incorporation into the Parent Company of the two wholly-owned subsidiaries, MPS Leasing & Factoring S.p.A. and MPS Capital Services Banca per le Imprese S.p.A., was completed. Both transactions became effective for accounting and tax purposes from 1 January 2023 and took place according in the simplified format envisaged for wholly-owned companies. These transaction are part of the broader process of streamlining the Group’s corporate and operational structure, in view of simplifying the organisation, optimising and enhancing resources and reducing costs, in line with the 2022-2026 MPS Group Business Plan.

The above transactions do not fall within the scope of IFRS 3 and, based on the provisions of Bank of Italy Circular 262/2005, are conventionally reported in this section. In the absence of a reference accounting standard, transactions “under common control” are accounted for in the Financial Statements of Group companies by adopting the principle of continuity of accounting figures, referring to the figures resulting from the Group’s Consolidated Financial Statements at the date of transfer of assets. The transactions had no impact on the MPS Group’s financial and economic position. For more information, please refer to the section on significant events during the financial year in the Consolidated Report on Operations.

Section 2 - Business combinations completed after the financial period

There are no transactions to report.

Section 3 – Retrospective adjustments

No retrospective adjustments are reported.



Part H – Related-party transactions

1 Compensation of key management personnel	493
2. Related-party transactions	493



1 Compensation of key management personnel

Items/Amounts	Total 31 12 2023	Total 31 12 2022
Short-term benefits	6,168	5,832
Termination benefits	-	194
Other compensation	1,961	-
Total compensation paid to key management personnel	8,129	6,026

In compliance with the instructions provided by accounting standard IAS 24 and in light of the current organisational structure, the Group 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 Parent Company's internet site, which contains the following data:

- a detailed breakdown of compensation paid to the Administration and Control Bodies, General Managers and, in aggregate form, to Key Management Personnel;
- quantitative information on the remuneration of "Identified Staff";
- 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 Bodies, the General Managers and other Key Management Personnel.

There were no terminations of employment of key executives in the financial year 2023.

2. Related-party transactions

In compliance with the provisions of Consob Resolution no. 17221, 12 March 2010, last updated with the amendments made by Consob resolution no. 21624, 10 December 2020, which came into force on 1 July 2021 (hereinafter the "Consob Regulations"), as well as art. 53 Consolidated Banking Law (TUB) and its implementing provisions (Bank of Italy Circular no. 285/2013, Part Three, Chapter 11 "Risk assets and conflicts of interest with respect to associated parties"), the "Committee for Related-party Transactions" was established, composed of between three and five independent directors, carrying out the functions envisaged by the By-Laws and the current legislative and regulatory provisions on transactions with related and associated parties.

The "Group Directive concerning Management of regulatory obligations on related parties, associated parties and obligations of bank representatives" (hereinafter the "Group Directive"), accompanied by the "Group Regulation concerning Management of regulatory obligations on related parties, associated parties and obligations of bank representatives" (hereinafter the "Group Regulations"), approved by the Parent Company's Board of Directors, with the prior favourable opinions of the Committee for Related Party Transactions and the Board of Statutory Auditors, contains the provisions and internal procedures on related parties, aligned with the provisions of the Consob Regulation in force as of 1 July 2021, which introduced, inter alia, a new definition of a related party and the need to define thresholds of small amounts differentiated at least in consideration of the nature of the counterparty. The Group Directive was most recently updated on 27 January 2022 for the purpose of implementing the additional obligations relating to loans granted to relevant parties pursuant to art. 88 of Directive 2013/36/EU.

The Group Directive defines the organisational model adopted by the MPS Group (principles and responsibilities) for the management process of the provisions applicable to related parties, associated parties and obligations of the bank representatives, and in particular, governs, at the MPS Group level, the principles and rules for the control of risks arising from situations of possible conflicts of interest with some subjects close to the decision making centres of the Parent Company.

Within the Group Directive, the following is also defined:

- the formulation of the responsibilities assigned within the MPS Group (tasks and responsibilities of the top management bodies and corporate functions of the Parent Company and Subsidiaries);
- the scope of the related parties, associated parties ("Group Scope") and other subjects in a potential conflict of interest;
- the criteria for the identification of transactions, level of relevance of the transactions;
- the decision-making procedures and exemption cases;
- the internal policies in the area of control.

For the purpose of the Group Directive, significance is attributed to the transactions carried out with the subjects operating within the Group Scope which involve the performance of risk activities, the transfer of resources,



services and obligations, regardless of the requirement of a consideration. With regard to the type of transactions, these are classified in detail in the aforementioned Group Regulations, as:

- **“most significant transactions”**: transactions where at least one of the following relevance indicators, applicable according to the specific transaction, exceeds the 5% threshold (greater relevance threshold):
 - *countervalue significance indicator*: the ratio of the countervalue of the transaction to the total of the own funds resulting from the most recent published consolidated balance sheet;
 - *relevance index of the assets*: the ratio of the total assets of the entity to which the transaction refers, to the total assets of BMPS;
 - *relevance index of the liabilities*: the ratio of the total liabilities of the acquired entity to the total assets of BMPS;
- **“transactions of lesser significance”**: transactions for an amount greater than a small amount and up to the threshold of greater significance; in the context of transactions of lesser significance, transactions in which the amount exceeds EUR 100.0 mln and up to the threshold of greater significance (significance index of the equivalent value) are considered to be of lesser significance as a **“significant amount”**, or, in the case of acquisitions, mergers and demergers for an amount equal to or less than EUR 100.0 mln, the significance index of the assets and/or liabilities is equal to or greater than the ratio of EUR 100.0 mln and own funds at a consolidated level;
- **“transactions for a small amount”**: transactions for an amount equal to or less than EUR 250.0 thousand, in the event that the counterparty is a legal person; transactions for an amount equal to or less than EUR 100.0 thousand, in the event that the counterparty is a natural person.

The provisions and procedures applicable to transactions with related parties, in the versions in force at the time, are published on the website www.gruppompis.it in the section *“Corporate Governance - Transactions with related parties”*.

From 2016, the Parent Company’s Board of Directors formally resolved to approve inclusion of the Ministry of Economy and Finance (MEF) and of the relevant directly and indirectly subsidiaries 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 Parent Company’s precautionary recapitalisation procedure, after which the MEF became the controlling shareholder from August 2017, the Parent Company 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 Banking (TUB) and its implementing provisions (Bank of Italy Circ. no. 263/06 Title V, Section 5), through application to the Parent Company of the “silo” approach for calculation of the reference limits.

With reference to the MEF scope, the Parent Company has availed itself of the exemption provided by paragraph 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 transactions, include Italian government bonds recorded in the portfolios “Financial assets measured at fair value through other comprehensive income” for a nominal amount of EUR 1,746.5 mln and “Financial assets measured at fair value through profit or loss” for a nominal amount of EUR 1,632.8 mln as well as “Financial assets measured at amortised cost” for a nominal amount of EUR 7,181.6 mln.

Information is provided below regarding the most significant transactions, in terms of amount, carried out by the Parent Company with related parties in 2023.

MEF related-party transactions

Transactions with SACE

On 31 January 2023, the Credit Committee of the Parent Company authorised a mixed credit facility in favour of Banca MPS customers for a total of EUR 30.0 mln, usable for the issue of financial and commercial guarantees in Italy/abroad; the use of this credit facility is at least 50% backed by a guarantee issued by SACE S.p.A.

On 30 March 2023, the Board of Directors of the Parent Company, subject to opinion in favour from of the Related Party Transactions Committee, resolved to renew the framework resolution of greater significance (expired on 2 December 2022), with a reduction of the amount from EUR 1.0 bn to EUR 0.5 bn, concerning the Parent Company’s operations with SACE S.p.A., relating to the issue of financial guarantees by SACE against credit facilities/loans granted by Banca MPS to companies as part of the “Green New Deal”, i.e. to pursue environmental objectives adequately supported by suitable projects for reducing pollution and the extent of polluting emissions and therefore at promoting eco-sustainable development (“DQSACEGREEN2023”). The



DQSACEGREEN2023 is valid for a period of 12 months from the date of adoption of the resolution and operates in relation only to Banca MPS and not at Group level.

In the first half of 2023, a number of insurance policies confirming documentary credits were entered into with SACE S.p.A., also in execution of the “SACE 2022 Framework Resolution”, to cover 50% of the risk of non-payment related to confirmation transactions of documentary credits in US dollars, entered into by its customers with foreign banks, for approximately USD 33.1 mln, USD 29.3 mln, USD 24.6 mln and USD 24.3 mln.

Furthermore, still in the first half of 2023, MPS Capital Services Banca per le Imprese S.p.A. (hereinafter “MPS Capital Services”), a company that later merged by incorporation into the Parent Company Banca MPS, resolved to conclude with SACE S.p.A.: (a) three transactions for the issue of financial guarantees as part of the “Green New Deal” for the amounts of EUR 20.0 mln, EUR 53.5 mln and EUR 14.1 mln, respectively, to cover 80%, 100% and 50% of the amount of loans granted to three corporate customers, and (b) three transactions for the issue of “SupportItalia” guarantees for amounts of EUR 16.0 mln, EUR 40.0 mln and EUR 13.5 mln, respectively, to cover 80% and 90% of the amount of loans granted to the three corporate customers.

On 5 September 2023, the Credit Committee of the Parent Company authorised the granting of credit lines backed by SACE S.p.A. guarantees to customers as described below: (i) credit line for a total of EUR 40.0 mln, usable for the issue of endorsement commitments mainly of a commercial nature, backed by a SACE S.p.A. guarantee for at least 50%, with an invitation on a best effort basis to a higher coverage of 70% upon reaching an unsecured limit of EUR 15.0 mln; (ii) unsecured loan for a total of EUR 10.0 mln, medium/long-term, with acquisition of a 90% SACE “SupportItalia” guarantee. In addition, on 12 September 2023, the Credit Committee resolved an amortising loan in favour of corporate customers up to a maximum amount of EUR 50.0 mln (and the related credit line to hedge interest rate risk of EUR 2.5 mln), with a duration of 8 years, with the acquisition of a SACE S.p.A. guarantee for at least 70%, to be allocated exclusively to support identified investments.

During the second half of 2023, the Parent Company resolved to conclude with SACE S.p.A., with effect respectively at the end of December 2023 and January 2024, three transactions for the issue of “SupportItalia” guarantees for an amount of EUR 20.0 mln, respectively, EUR 18.0 mln and EUR 12.6 mln, to cover 80% for the first transaction and 90% for the other two transactions, respectively, of the amount of loans granted to three corporate customers.

In addition, also during the second half of 2023, a number of insurance policies were finalised with SACE S.p.A., with coverage equal to 50% of the risk of non-payment, relating to confirmation transactions of documentary credits in US dollars, entered into by its customers with foreign banks, for a value of approximately USD 71.8 mln.

These transactions, finalised with SACE, fall within the scope of application of Consob Regulation no. 17221/2010, since SACE S.p.A. is a wholly-owned subsidiary of the MEF.

Transactions with WEBUILD

On 27 January 2023 and, subsequently, on 13 June 2023, the Credit Committee of the Parent Company authorised Banca MPS to comply with the waiver requests made by WEBUILD S.p.A., concerning certain contractual clauses governing the Revolving Credit Facility agreement, for EUR 70.0 mln, previously stipulated with this company.

On 7 November 2023, the Board of Directors of the Parent Company authorised in respect of WEBUILD S.p.A.: (i) the granting of a new Revolving Credit Facility (“RCF”) in the amount of EUR 60.0 mln (“Refinancing Facility”), as Banca MPS’s share in a new pool transaction, intended to refinance, in part, the RCF credit line maturing in 2024 and 2025 (ii) for another outstanding bilateral RCF of EUR 70.0 mln, the adjustment of the financial covenants to the provisions of the new Refinancing Facility; (iii) the revision with rescheduling of the existing revocable credit lines and the simultaneous cancellation of three credit lines.

Transactions concluded with WEBUILD fall within the scope of application of the Consob Regulation no. 17221/2010, since WEBUILD S.p.A. is an associate company, through CDP S.p.A., of CDP S.p.A., in turn controlled by the MEF.

Transactions with other MEF related parties

On 22 March 2023, the Credit Committee of MPS L&F Leasing & Factoring S.p.A. (hereinafter “MPS L&F”) - which later merged by incorporation into the Parent Company Banca MPS - approved the renewal in favour of SNAM RETE GAS S.p.A. with increased risk ceiling as debtor without recourse, from EUR 0.4 mln to a total of EUR 20.0 mln, based on the assignor customer relationship. The transactions concern the purchase of non-notification receivables, with direct collections to the transferor and subsequent transfer to the transferee MPS



L&F, backed by an insurance policy, with coverage ratio equal to 95% of the risk ceiling. The transaction falls within the scope of application of Consob Regulation no. 17221/2010, since SNAM RETE GAS S.p.A. is an indirect subsidiary of Cassa Depositi e Prestiti S.p.A. which is in turn controlled by the MEF.

On 28 March 2023, the Credit Committee of the Parent Company, subject to the opinion in favour from the Related Party Transactions Committee, resolved to authorise in favour of the VALVITALIA Group the participation of Banca MPS, together with other banks, in the 2023-2029 recovery plan proposed by VALVITALIA S.p.A. (acceptance of the arrangement pursuant to art. 23, paragraph 1, letter c) of Italian Legislative Decree no. 14/2019 **“Corporate Crisis and Insolvency Code in implementation of Italian Law no. 155 of 19 October 2017”**), which entails confirmation good till cancelled and reactivation of agreement for unsecured credit facilities down from EUR 22.0 mln to EUR 12.0 mln, and confirmation good till cancelled and reactivation of the agreement for forward purchase and sale of currency for EUR 3.0 mln, for a total of EUR 15.0 mln. The transaction falls within the scope of application of Consob Regulation no. 17221/2010, since VALVITALIA S.p.A. is an indirect subsidiary - through CDP Equity S.p.A. - of CDP S.p.A., in turn controlled by the MEF.

On 5 April 2023, the Credit Committee of the Parent Company resolved to authorise in favour of ANSALDO ENERGIA S.p.A., the ordinary review of existing credit lines, with a reduction from EUR 20.0 mln to EUR 17.0 mln, which can be used for opening credit against documents, for the issue of commercial and/or financial sureties both in Italy and abroad, in euro and foreign currency, as well as for hedging exchange rate risks. The transaction falls within the scope of application of Consob Regulation no. 17221/2010, since ANSALDO ENERGIA S.p.A. is a subsidiary of CDP Equity S.p.A., a wholly-owned subsidiary of CDP S.p.A., in turn controlled by MEF.

On 19 April 2023, the Credit Committee of MPS L&F - which later merged by incorporation into the Parent Company Banca MPS - authorised in favour of AUTOSTRADE PER L'ITALIA S.p.A. a credit facility with recourse as transferred debtor, for a total of EUR 20.0 mln, on the transferor customer relationship for intercompany factoring transactions in the commercial field of infrastructural works with a disinvestment percentage of 80%. The transaction falls within the scope of application of Consob Regulation no. 17221/2010, since AUTOSTRADE PER L'ITALIA S.p.A. is an indirect subsidiary (jointly controlled) - through CDP Equity S.p.A. - of Cassa Depositi e Prestiti S.p.A., in turn controlled by the MEF.

On 8 May 2023, the Board of Directors of the Parent Company, subject to opinion in favour from the Related Party Transactions Committee, authorised in favour of ENI S.p.A., as part of the ordinary review of credit facilities, the confirmation of the credit facility good till cancelled for EUR 300.0 mln, usable on a mixed and multiple basis (opening of current account credit, financial transactions in the form of forward contracts, issue of sureties and letters of credit in Italy/abroad, loans in foreign currency, opening of credit against documents) by ENI S.p.A. and the ENI Group companies consolidated line by line. The transaction falls within the scope of application of Consob Regulation no. 17221/2010, as ENI S.p.A. is a subsidiary of the MEF.

Also on 8 May 2023, the Board of Directors of the Parent Company, subject to opinion in favour from the Related Party Transactions Committee, resolved to approve in favour of AMCO - Asset Management Company S.p.A. the signing of a new fronting bank agreement (“Amended Agreement”), replacing the agreement signed in 2020 and, at the same time, renewal of a credit facility in the form of a forward revolving current account for a maximum amount of EUR 30.0 mln, for execution of the Amended Agreement. The transaction falls within the scope of application of Consob Regulation no. 17221/2010, as AMCO S.p.A. is a subsidiary of the MEF.

On 28 June 2023, the Credit function of the Parent Company authorised in favour of OPEN FIBER S.p.A. the increase in the risk ceiling of the debtor transferred without recourse from EUR 6.5 mln to a total of EUR 7.5 mln, in addition to confirmation of the notional limit of a total of EUR 10 mln, applicable to transferor customers subject to separate resolution. The transactions concern the purchase of non-notification receivables, with transfer only of single contracts of the transferred debtor, backed by an insurance policy with coverage ratio of 95% of the risk ceiling. The transaction falls within the scope of application of Consob Regulation no. 17221/2010, since OPEN FIBER S.p.A. is an indirect subsidiary (under common control) of Cassa Depositi e Prestiti S.p.A., through CDP Equity S.p.A., in turn controlled by the MEF.

In the first half of 2023, in order to support the financing needs of its corporate customers, two funding transactions were also carried out with Cassa Depositi e Prestiti S.p.A., on the SME Plafond made available by CDP, as part of the Agreement signed by the latter and ABI, called the “Business Platform”, for the amounts of EUR 12.5 mln and EUR 36.4 mln. The transactions fall within the scope of application of Consob Regulation no. 17221/2010, as CDP S.p.A. is a subsidiary of the MEF.

Lastly, in the first half of 2023, MPS Capital Services, which later merged by incorporation into the Parent Company, approved the granting of a loan to M.T. Manifattura Tabacchi S.p.A., which envisages the construction of two new buildings as part of a plan to redevelop an owned site in Florence. The loan for a total of EUR 43.6 mln was structured and pool financed by MPS Capital Services (now Banca MPS) and two other banks, with a



share subscribed by Banca MPS totalling EUR 10.9 mln. The company financed is 40% owned by CDP Immobiliare S.r.l., in turn a wholly-owned subsidiary of CDP S.p.A.; therefore, the transaction falls within the scope of application of Consob Regulation no. 17221/2010 as M.T. Manifattura Tabacchi S.p.A. is a company subject to significant indirect influence of CDP S.p.A., in turn controlled by the MEF.

On 24 July 2023, the following was authorised in favour of TITAGARH FIREMA S.p.A.: (i) the renewal of the EUR 10.0 mln credit line for non-recourse purchase of receivables due from a public debtor, and (ii) the granting of a new EUR 8.0 mln credit line for non-recourse purchase of receivables due from another public debtor. The transaction falls within the scope of application of Consob Regulation no. 17221/2010, since TITAGARH FIREMA S.p.A. is 30% owned by Invitalia S.p.A., which in turn is wholly owned by the MEF.

On 11 August 2023, the following credit lines were authorised in favour of ENEL PRODUZIONE S.p.A.: (i) new assigned risk limit concession of EUR 12.0 mln, based on assignors subject to positive valuation and resolution, fully guaranteed by an insurance policy with a coverage ratio of 95%, and (ii) confirmation of assigned notional limit of EUR 3.0 mln. The transaction falls within the scope of application of Consob Regulation no. 17221/2010, since ENEL PRODUZIONE S.p.A. is directly owned by Enel Italia S.p.A. and indirectly by Enel S.p.A., the latter being a direct subsidiary of the MEF.

On 5 September 2023, the ordinary revision of credit facilities, in favour of CONSIP S.p.A. was authorised with confirmation of the existing credit facility which can be used as a current account credit facility, for EUR 10.0 mln. The transaction falls within the scope of application of Consob Regulation no. 17221/2010, since CONSIP S.p.A. is a wholly-owned subsidiary of the MEF.

On 12 September 2023, the Credit Committee of the Parent Company resolved in favour of CRONOS VITA S.p.A. to grant a long-term loan of up to EUR 74.6 mln, as part of a pool loan for a total of EUR 980.0 mln, maximum duration of up to 8 years, granted by the main Italian banks as part of the system operation, aimed at protecting the subscribers of Eurovita policies. The transaction, which provides for the sale of business units of Eurovita S.p.A. to the main insurance companies operating in Italy, including Poste Vita S.p.A., falls within the scope of application of Consob Regulation no. 17221/2010 as CRONOS VITA S.p.A. is an associate, through Poste Vita S.p.A., of Poste Italiane S.p.A., in turn controlled by the MEF.

On 12 October 2023, in favour of FONDO ITALIANO DI CONSOLIDAMENTO E CRESCITA, as part of the ordinary revision with confirmation of the existing revocable credit line, the extension of the validity for internal purposes of the credit line of EUR 25.0 mln, usable as a current account credit line or the lower of the amount of EUR 25.0 mln and 30% of the amount of the fund's subscribed units still to be called, was authorised. This transaction falls within the scope of application of Consob Regulation no. 17221/2010, since FONDO ITALIANO DI CONSOLIDAMENTO E CRESCITA is managed by Fondo Italiano d'Investimento SGR S.p.A., which is controlled by CDP S.p.A., which in turn is controlled by the MEF.

On 14 November 2023, the Credit Committee authorised, in favour of AGENZIA NAZIONALE PER L'ATTRAZIONE DEGLI INVESTIMENTI E LO SVILUPPO D'IMPRESA S.p.A. ("INVITALIA S.p.A."): (i) the participation of Banca MPS in the syndicated loan for a total amount of EUR 68.0 mln, for the maximum share of 40% equal to EUR 27.2 mln, with a duration of 5 years and bullet repayment at maturity, assisted by an independent guarantee, on first demand, issued by SACE S.p.A. equal to 50% of the amount financed, and (ii) the confirmation of the counterparty operational financial risk limit of EUR 5.0 mln, for securities transactions. The transaction falls within the scope of application of Consob Regulation no. 17221/2010, as INVITALIA S.p.A. and SACE S.p.A. are directly controlled by the MEF.

On 19 December 2023, SOGEI SOCIETÀ GENERALE ED INFORMATICA S.p.A. ("SOGEI S.p.A.") was authorised to increase the non-recourse risk limit loan to EUR 11.0 mln, guaranteed by an insurance policy with a coverage ratio of 95%. The transaction falls within the scope of application of Consob Regulation no. 17221/2010, since SOGEI S.p.A. is a wholly-owned subsidiary of the MEF.

On 31 December 2023, subject to the favourable opinion of the Related Party Transactions Committee, Banca MPS's acceptance of the proposal made by ANIMA HOLDING S.p.A. for the signing of an agreement relating to the confirmation and stabilisation of the fee regime in force was authorised for the placement of asset management products of the Group headed by ANIMA HOLDING S.p.A.. The transaction falls within the scope of application of Consob Regulation no. 17221/2010, since ANIMA HOLDING S.p.A. is an associate company of Poste Italiane S.p.A., which in turn is controlled by the MEF.

In the second half of 2023, the Parent Company's Board of Directors authorised, in favour of FINCANTIERI S.p.A., as part of the ordinary review of credit lines, the extension of the existing credit lines, as well as the granting of a new unsecured loan of EUR 100.0 mln, duration 5 years, as the maximum share of Banca MPS's participation in a pooled loan of a total of EUR 800.0 mln, with the acquisition of a 70% SACE S.p.A. "SupportItalia" guarantee. In this context, a credit line to hedge interest rate risk on the aforementioned pool transaction and a new operating



limit of EUR 50.0 mln for factoring transactions for the purchase of receivables without recourse were also authorised. The transaction falls within the scope of application of Consob Regulation no. 17221/2010 as the MEF, the controlling shareholder of Banca MPS, is the majority shareholder of CDP S.p.A. which in turn holds 100% of CDP Industria S.p.A., the majority shareholder of FINCANTIERI S.p.A.

Transactions with other related parties

On 21 February 2023, the Credit Committee of the Parent Company authorised the ordinary review of existing credit facilities in favour of IMMOBILIARE NOVOLI S.p.A., with a partial decrease (in mixed, unsecured and multiple credit lines) for a total of EUR 41.2 mln. The transaction falls within the scope of application of Consob Regulation no. 17221/2010, as IMMOBILIARE NOVOLI S.p.A. is jointly controlled by the Parent Company through its 50% equity investment in the share capital.

On 27 June 2023, the Parent Company's Credit function has authorised the mortgage restriction concerning SANDONATO S.r.l. relating to two pooled loans backed by a first and second degree mortgage on real estate, to guarantee the residual amount of two mortgages for the Banca MPS portion equal to EUR 25.4 mln. The transaction falls within the scope of application of Consob Regulation no. 17221/2010 as SANDONATO S.r.l. is a wholly-owned subsidiary of Immobiliare Novoli S.p.A., in turn jointly controlled by the Parent Company through its 50% equity investment in the share capital.

Finally, during 2023 the Group realized the merger transaction of the internal defined-benefit pension funds into Section B of MPS Pension Fund, that there is a related party of Parent Company. The transaction had already been approved by the Board of Director of the Parent Company in its meeting of 16 December 20219, subject to the favourable opinion of the Relate Party Transaction Committee, as part of company pension plan reform. For further details please refer to section 10.5 "Defined benefit company pension funds" of these Notes to the Consolidated Financial Statement.

As regards securitisation transactions and covered bond programmes, see the specific information provided in the Notes to the Consolidated Financial Statements - Part E – Information on risks and hedging policies.



The following tables summarise the relationships and economic effects of transactions carried out in the financial year with associates, key management personnel and other related parties.

The “MEF Scope” column highlights the balances⁶¹ of the balance sheet and income statement items as at 31 December 2023 relating to the transactions carried out with the MEF and the companies controlled by the MEF, namely direct or indirect subsidiaries of the MEF and their associates.

2.a Related-party transactions: balance sheet items

	Value as at 31 12 2022						
	joint venture	Associated companies	key management personnel	Other related parties	MEF Scope	Total	% on consolidated
Financial assets held for trading	-	30,770	-	-	3,062,673	3,093,443	52.58%
Financial assets mandatorily measured at fair value	-	-	-	-	28,531	28,531	7.74%
Financial assets measured at fair value through other comprehensive income	-	-	-	-	1,688,730	1,688,730	68.17%
Loans to banks measured at amortised cost	-	-	-	-	14,020	14,020	0.37%
Loans to customers measured at amortised cost	60,905	62,452	2,057	1,134	8,992,545	9,119,093	10.51%
Other assets	-	-	-	-	1,675,195	1,675,195	47.60%
Total assets	60,905	93,222	2,057	1,134	15,461,694	15,619,012	
Financial liabilities measured at amortised cost	1,785	50,562	1,868	115,888	2,584,594	2,754,697	2.62%
Financial liabilities held for trading	-	33,907	-	-	1,878,047	1,911,954	66.98%
Other liabilities	487	15,135	2	3	18,947	34,574	1.06%
Total liabilities	2,272	99,604	1,870	115,891	4,481,588	4,701,225	
Guaranties issued and Commitments	13,994	26,054	200	28	1,950,136	1,990,412	n.a.

2.b Related-party transactions: income statement items

	Value as at 31 12 2022						
	joint venture	Associated companies	key management personnel	Other related parties	MEF Perimeter	Other related parties	% on consolidated
Interest income and similar revenues	3,754	2,719	40	13	298,607	305,133	6.99%
Interest costs and similar charges	(12)	(562)	(44)	(3,362)	(58,834)	(62,814)	3.03%
Fee and commission income	87	184,957	10	6	205,173	390,233	25.08%
Fee and commission expense	-	(434)	(1)	(1)	(17,972)	(18,408)	7.98%
Net profit (loss) from fair value measurement of assets/liabilities	-	-	-	-	(1,061)	(1,061)	18.13%
Net adjustments/impairments	299	(53)	(3)	-	(4,684)	(4,441)	1.03%
Dividends	-	-	-	-	338	338	1.27%
Operating costs	(1)	(3,058)	(8,460)	(23)	(21,522)	(33,064)	2.07%

For the list of joint venture and associated as at 31 December 2023, see the tables of the Notes to the Financial Statements – Part B – Information on the balance sheet – Section 7.

The transaction with associates mainly refer to Axa Group companies. In particular, it should be noted that financial assets held for trading and financial liabilities held for trading refer to hedging activities for insurance products of AXA Group placed on the MPS network.

⁶¹ 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”.



The securitisation transactions are described in Part E of the Notes to the financial statements. With regard to the balances shown in Table 2.b shown above, please note the following:

- Fee and commission income from associates refers almost entirely to the insurance investees Axa MPS Assicurazioni Vita S.p.A. and Axa MPS Assicurazioni Danni S.p.A.;
- Operating costs relating to associates consist mostly of insurance costs incurred with the aforementioned associated.

With regard to the MEF scope, note the following:

- financial assets mainly consist of government bonds, which generated interest income for EUR 209.5 mln;
- the other assets consist of tax credits held by the Group on the tax authorities for various reasons as a result of the measures introduced by various legal provisions, of which EUR 1,660.2 mln due to tax credits for construction subsidies purchased by the Parent Company, which boosted net interest income by EUR 56.1 mln;
- the liabilities measured at amortised cost mainly refer to the deposits with CDP counterparty and Invitalia for EUR 1,647.6 mln, which impacted for EUR 49.8 mln on the item interest expense;
- the fee and commission expenses consist almost entirely of commissions paid to Nexi S.p.A.; the fee and commission income mainly refer to the distribution contract with Anima (associate in the MEF scope) and to the support activities for the MEF's securities placement auctions carried out by the Parent Company;
- profit (loss) from other assets and liabilities measured at fair value through profit or loss mainly concerns capital losses and capital gains recognised on Fondo Italiano d'Investimento and Webuild units, respectively;
- net write-downs/write-backs for credit risk concern primarily write-backs on loans with the counterparty Gruppo PSC S.p.A. (EUR 2.0 mln);
- operating costs are almost entirely attributable to postage and shipping costs.



Part I – Share-Based Payment Agreements

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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 remuneration and incentive policies and practices establish that at least 50% of variable remuneration provided to “identified staff” should be paid in the form of shares or associated financial instruments over a period of at least 4 years. “Variable remuneration” refers to both variable components linked to the performance or other parameters and amounts paid as incentives 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 has adopted in the financial years 2017, 2020, 2021 and 2022, Annual Performance Shares Plans and in the financial years 2018 and 2019, Annual Treasury Shares Plans. In the session of 20 April 2023, the Shareholders’ Meeting of the Parent Company approved a Phantom Shares Plan for 2023, designated exclusively to the payment of any severance or variable incentive remuneration for the staff of the Montepaschi Group.⁶² The contents and the operating procedures of these plans are included in the “Remuneration policies” posted on the web site of the Parent Company <https://www.gruppompis.it/corporate-governance/assemblea-azionisti/archivio-assemblee.html>.

The allocation of the Performance Shares for the Plans up to 2017 and for Plans from 2020 to 2022, as well as the allocation of Phantom Shares for the 2023 Plan, do not require the material assignment of shares, but rather the payment of an amount pegged to the share value reported over time, for accounting purposes it is considered a cash settled share based payment pursuant to IFRS 2 “Share-based payments”. The debt corresponding to the amounts to be recognised will be paid off in cash and recorded at the end of the service period in case of amounts recognised as severance pay, or when performance target are achieved in case of amount recognised under the incentive scheme, and the total amount will depend on the price of the instruments representative of the capital (performance shares) which will be measured at fair value, calculated as the best estimate of the amount due in consideration of the different conditions established by the plans, valued with regard to the fair value of the shares of the Bank assigned from year to year and the value of the Parent Company’s shares. The estimate of the fair value of the share, at the measurement date, will not take into account any expected vesting conditions (e.g. condition of permanence in service or conditions for the achievement of results), except for market conditions. The vesting conditions should be taken into consideration by adjusting the number of assignments included in the assessment of the liability arising from the transaction; the market conditions (as with any other non-accrual-related conditions) should instead be considered in the estimate of the liabilities fair value arising from the transaction and of the related cost attributed to the Income Statement.

The 2018 and 2019 plans, providing for the assignment of shares of the Parent Company at the accrual time of the vesting conditions, fall within the scope of the application of the IFRS 2 accounting standard as equity settled share-based payments, in the context of which the instruments representative of the capital are attributed as an offsetting entry to an equity reserve. Within this scope, the severance cost set forth in the Plans and the corresponding increase in net equity are measured at the fair value of the shares that will be assigned; the estimate of the fair value of the share at the measurement date will not need to take into account any expected vesting conditions (e.g. condition of permanence in service or conditions for the achievement of results), except for market conditions. The vesting conditions should be taken into consideration by adjusting the number of financial instruments included in the measurement of the amount of the transaction so that the value recognised in the financial statements for the services received as a consideration for the financial instruments will be based on their number which, at the end, will actually be accrued; the market conditions should instead be considered in the estimate of the fair value of the assigned shares.

The fair value of the Performance Shares and of the treasury shares assigned is determined - pursuant to art. 9, paragraph 4 of the Income Tax Act (TUIR) - on the basis of the arithmetic average of the MPS share prices reported in the thirty days leading up to the assignment date.

⁶² It should be noted that, although the characteristics and operation remain unchanged, with a view to greater alignment with market practices, the name of the synthetic instrument was changed from “Performance Shares” (name used by the Bank in previous years) to “Phantom Shares”.



Quantitative Information

As for the 2016 Plan, of the original 32,806 deferred performance shares, 4.01 of them were paid out during 2023. As at 31 December 2023, following both the liquidations and spin-offs that have occurred to date, and the regrouping of the BMPS share in the ratio of 100 to 1, which took place with the resolution of the Shareholders' Meeting of 15 September 2022, there remain 8.19 Performance Shares to be liquidated in accordance with the provisions of the Plan, in compliance with applicable internal and external regulations.

With reference to the plans approved from 2017 to 2019 and the plans approved in 2020, 2021 and 2022, no amount is recognised as at the reporting date of these financial statements as neither equity instruments nor shares have been granted due to the failure to meet accrual conditions.

With regard to the 2023 Plan, 44,998 Phantom Shares to be disbursed by way of Severance, according to the terms and methods set forth in the deferral plan signed at the time of the early termination of the employment between an Executive and the Bank.



Part L – Segment reporting

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Summary

According to IFRS 8, an enterprise must provide information that enables users of the financial statements to evaluate the nature and effects on the accounts of its activities undertaken and the economic contexts in which it operates.

It is necessary highlight the contribution of the different “operating segment” to profit and loss of the Group. The operating segment in this section are consistent with the methods adopted by management to take operational decisions, and they are based on internal reporting used for the purpose of allocating resources to various segments and to conduct performance analyses.

Montepaschi Group operations by business segment

The Montepaschi Group operates in the following business areas:

- *Retail and commercial banking*: includes lending activities, traditional banking services, financial advisory and digital banking services, the offering of banking and insurance products through the strategic partnership with AXA, wealth management and investment products;
- *Leasing and Factoring*: includes the offering of leasing and factoring packages for businesses, artisans and professionals;
- Corporate finance: mid- and long-term lending, corporate finance, capital markets and structured finance;
- *Investment banking*: trading and global markets;
- *Foreign banking*: products and services in support of market expansion and investments of Italian companies abroad.

Operations in the business areas are conducted by the following operating units of the Group:

- sales & distribution network, comprising the branches and specialised centres of Banca Monte dei Paschi di Siena;
- Banca Widiba SpA, which includes the business of the Financial Advisory Network and Digital Banking;
- product companies, represented by the Group’s banks and companies expressly dedicated to the development of specialised financial instruments to be offered to the market, in particular: MPS Fiduciaria (specialising in trust and fiduciary services). In April and May 2023, MPS Leasing & Factoring (specialising in leasing and factoring services for companies) and MPS Capital Services (specialising in corporate finance, capital markets and structured finance) were merged by incorporation;
- foreign network⁶³.

The Group also includes service operations dedicated to the management of IT and telecommunications systems.

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

Starting in July 2022, the Chief Commercial Officer was specialised in 3 Chief Commercial Officers (Chief Commercial Officer Retail, Chief Commercial Officer Corporate and Private and Chief Commercial Officer Large Corporate & Investment Banking) for a more effective focus of the commercial chains on the objectives and results to be achieved on the corresponding reference markets.

On 24 April 2023 and 29 May 2023, respectively, the mergers by incorporation into the Parent Company of MPS Leasing & Factoring S.p.A. and MPS Capital Services Banca per le Imprese S.p.A. took effect. Though in both cases the accounting and tax effects date from 1 January 2023, for the first half of 2023, the merged entities are included in the segment reporting results on the basis of their contribution to the Group’s results as independent business units, in line with management reporting. This contribution, for the period included between the mergers and 30 June 2023, was estimated on the basis of operating data and, where available, accounting records. The contribution relating to the second half of the year for the customers of the merged companies was instead attributed to the operating segments on the basis of the service model actually assigned to the customers. The comparative balance sheet figures as at 30 September 2023 were therefore restated with respect to those published in the Interim Report on Operations as at 30 September 2023, in order to allow a homogeneous comparison. The economic and financial results as at 31 December 2022, on the other hand, were not restated and therefore are not

⁶³ It is organised as follows: 1 operational subsidiary in Shanghai; 8 representative offices (in target areas of Europe, North Africa, India and China); 1 foreign bank, namely Monte Paschi Banque S.A., operating in France, for which the Parent Company resolved in 2018 to launch the orderly winding-down process.



fully comparable (with particular reference to the Corporate Banking and Large Corporate and Investment Banking segments).

Also note that, from 1 January 2023, the insurance associates AXA MPS Assicurazioni Danni S.p.A. and AXA MPS Assicurazioni Vita S.p.A. simultaneously adopted for the first time the new accounting standard IFRS 17 “Insurance contracts”, which came into force on 1 January 2023, and IFRS 9 “Financial instruments”. The transition date is the beginning of the financial year immediately prior to that of first application (i.e. 1 January 2022).

Economic value items as at 31 December 2022 relating to the value of investees, recognised in the financial statements of the MPS Group using the synthetic equity method, were restated compared to those published at the related reporting date, to guarantee a homogenous comparison.

Based on the Group’s reporting criteria, which also take into account the organisational structures and the above, the following operating segments are defined:

- **Retail Banking**, which includes the income statement/balance sheet results of Retail customers (Value and Premium segments) and Banca Widiba S.p.A. (Financial Advisor Network and Self-service channel);
- **Wealth Management**, which includes the income statement/balance sheet results of Private Banking customers (Private Banking and Family Office segments) and the subsidiary MPS Fiduciaria;
- **Corporate Banking**, which includes the income statement/balance sheet results of Corporate customers (SME, Corporate Client and Small Business segments), Foreign Branches, the merged entity MPS Leasing & Factoring S.p.A. and the foreign bank MP Banque;
- **Large Corporate and Investment Banking**, which includes the economic/equity results of *Large Corporate* customers, of the *Corporate Finance and Investment Banking* and *Global Market* Business Units as well as of the merged MPS Capital Services Banca per le Imprese S.p.A. (for the first half of the year);
- **Corporate Centre**, which in addition to the offsetting of intragroup entries, incorporates the results of the following business centres:
 - Non-Performing customers managed centrally by the Non-Performing Loans Unit;
 - companies consolidated with the equity method and those held for sale;
 - operating units, such as proprietary finance, treasury and capital management;
 - service units supporting the Group’s business, dedicated in particular to the management and development of IT systems.

The tables below shows the income statement and balance sheet results for each identified operating segment.



Reclassified income statement criteria by operating segment

Main economic aggregates criteria are described below:

- **Net interest income:** in relation to the business centres of Banca Monte dei Paschi di Siena, it is calculated by way of contribution on the basis of internal transfer rates broken down by products and maturities. With reference to non-divisionalised entities, net interest income is the difference between “interest income and similar revenues” and “interest expense and similar charges”.
- **Net fee and commission income:** determined by direct allocation of commissions to the operating segments.
- **Operating expenses:** the aggregate includes personnel expenses, other administrative expenses (after recovery of expenses) and Net adjustments to/recoveries on property, plant and equipment and intangible assets. The operating expenses of non-divisionalised entities (mono-segments) are directly allocated to their corresponding operating segments while, for Banca Monte dei Paschi di Siena, they are allocated to their respective Segments of reference by using a “cost allocation” model. For personnel expenses, the model makes direct allocation to business centres on the basis of the functional location of resources, or, indirect allocation on the basis of specific drivers. With regard to other administrative expenses and Net adjustments to/recoveries on property, plant and equipment and intangible assets, the model allocates external and intragroup cost components to the business centres either directly or by means of specific drivers.
- **Cost of customer credit / Net impairment (losses)/reversals on securities and loans to banks:** analytically allocated to the individual operating segments.

Reclassified balance sheet criteria by operating segment

Balance sheet aggregates were developed by precisely surveying the balances on individual customers and subsequently aggregating them by service model/operating segment. In particular:

- **gross interest-bearing loans to customers:** the interest-bearing assets used for the operations of a business segment, which are directly attributable to the segment itself;
- **direct funding** include the onerous liabilities arising from the operations, which are directly attributable to the segment itself.

Transactions between operating segments

Each segment's income and results include transfers between operating segments (Internal Transfer Rates). These transfers are reported in accordance with the best practices accepted by the market (i.e. the fair value method or cost method increased by a proper margin) both with respect to commercial and financial transactions.

The income of each operating segment is determined before intragroup balances and intragroup transactions are eliminated during the process of consolidation. In line with the internal reporting system used by the Montepaschi Group, balances of intragroup transactions are not shown separately.



Segment reporting – economic and balance sheet aggregates

SEGMENT REPORTING	Business Segments				Corporate Center	Total MPS Group
	Retail banking	Wealth Management	Corporate banking	Large Corp. & Inv. Banking		
(EUR mln)	31/12/23	31/12/23	31/12/23	31/12/23	31/12/23	31/12/23
PROFIT AND LOSS AGGREGATES						
Net interest income	1,132.8	54.9	1,024.1	127.8	(47.6)	2,292.1
Net fee and commission income	755.9	109.8	490.9	56.1	(90.9)	1,321.9
Other income	69.8	17.0	23.9	50.3	9.1	170.1
Other operating expenses/income	(7.7)	(1.3)	(4.6)	0.7	25.7	12.8
Total Income	1,950.8	180.5	1,534.2	234.9	(103.7)	3,796.8
Operating expenses	(1,027.8)	(109.6)	(513.8)	(79.2)	(112.4)	(1,842.8)
Pre Provision Profit	923.0	70.9	1,020.4	155.7	(216.0)	1,954.1
Net impairment losses (reversals) on loans and financial assets	(141.1)	(3.2)	(262.2)	(0.4)	(36.6)	(443.5)
Net Operating Income	781.9	67.7	758.3	155.4	(252.6)	1,510.6
BALANCE SHEET AGGREGATES						
Gross Interest-bearing loans to customers	30,591	519.4	32,409.4	3,941.5	10,156	77,618
Direct funding	40,162	2,622.9	24,818.9	3,256.6	19,779	90,639

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

The following table summarises the values relating to the financial year 2022.

SEGMENT REPORTING	Business Segments				Corporate Center	Total MPS Group
	Retail banking	Wealth Management	Corporate banking	Large Corp. & Inv. Banking		
(EUR mln)	31/12/2022**	31/12/2022**	31/12/2022**	31/12/2022**	31/12/2022**	31/12/2022**
PROFIT AND LOSS AGGREGATES						
Net interest income	387.3	5.0	492.0	134.7	516.7	1,535.6
Net fee and commission income	800.3	111.7	486.5	45.3	(79.0)	1,364.6
Other Revenues from Banking and Insurance Business	69.6	19.1	24.7	8.8	69.9	192.1
Other operating expenses/income	(0.1)	(0.0)	(4.9)	0.9	31.6	27.5
Total Revenues	1,257.1	135.7	998.3	189.6	539.1	3,119.8
Operating expenses	(1,173.8)	(126.8)	(591.7)	(105.6)	(110.3)	(2,108.1)
Pre Provision Operating Profit	83.3	9.0	406.6	84.0	428.8	1,011.6
Cost of customer loans/Net impairment (losses)-reversals on securities and loans to banks/Other net provisions	(11.1)	(1.4)	(204.6)	(46.9)	(154.0)	(418.0)
Net Operating Income	72.2	7.6	202.0	37.0	274.8	593.6
BALANCE SHEET AGGREGATES						
Gross Interest-bearing loans to customers (*)	30,974	569.6	33,044.1	5,579.7	6,833	77,001
Direct funding	42,453	2,711.1	23,228.0	1,616.1	11,989	81,998

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

(**) The income statement figures as at 31 December 2022 have been restated, compared to those published at the reporting date, following (i) the retrospective application of the new accounting standards IFRS 17 Insurance contracts and the adoption of the standard IFRS 9 Financial instruments, by the insurance associates, (ii) and to take into account the discontinued application of the reclassifications on PPA and Rents.



Part M - Leasing Information

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Section 1 - Lessee

Qualitative Information

In the capacity of lessee, the Parent Company stipulates lease agreements of properties to be primarily used for business. Therefore, these leased properties are used as branches and as spaces intended to accommodate ATMs or internal offices.

The leasing activity also includes the stipulation of leasing agreements related to residential property used by employees during transfers to other work locations.

In reality, the leasing activities of the Parent Company is also aimed at the need to relocate branches and offices. Particular attention is paid to the identification of the properties that are more suitable for the intended use, in line with the cost effectiveness criteria set forth by the company.

As at 31 December 2023, the Parent Company had approximately 1,070 contracts in place in the capacity of lessee.

The Group companies undertake the role of lessee primarily in the leasing agreements of properties hosting their offices. In particular, the Company Widiba S.p.A. executes lease agreements concerning properties to be used for business (e.g., financial shops, spaces used for offices) and residential use, as in the case of flats sub-leased to employees who have transferred to other business locations. As for the Parent Company, the execution of new contracts is necessary in the case of relocations. As at 31 December 2023, the subsidiary is the lessee in 99 contracts for business use and 2 contracts for hospitality purposes.

In addition, the Group has contracts for motor vehicles, mainly referring to long-term leases of company cars and cars given as a fringe benefit to employees. In view of the marginal relevance of car leasing contracts with respect to the total values of the assets consisting of rights of use recognized in the financial statements pursuant to IFRS 16, no further disclosure is provided on this contract category.

The Group is not usually exposed to cash outflows not included in the lease liability. The exposures deriving from extension options are included in the lease liabilities since, in order to provide business continuity to the Branch offices, the Group considers the first renewal to be certain, except in special cases. The rent due on the leases is updated in line with ISTAT data. No contracts entered into as lessee falls into the other categories referred to in the standard (residual value guarantees, commitments on leases not yet operational).

The Parent Company and the Group companies recognise as costs:

- short-term leases in the case of assets such as properties and technologies when the related contracts have a maximum term of twelve months and do not provide for any extension options.
- the leasing of assets of a modest value, i.e. characterised by a value that is under five thousand euro, related mainly to cell phones.

Quantitative Information

The following table shows amortisation costs for the assets comprising the right of use, broken down by the underlying asset class.

	31 12 2023	31 12 2022
Amortization costs on Right of Use acquired through leasing	47,281	50,427
a) Land	-	-
b) Buildings	42,292	43,861
c) Furniture and Furnishings	1	15
d) Electronic systems	3,631	5,146
e) Other	1,357	1,405



Section 2 - Lessor

Qualitative Information

The Parent Company executes, in its capacity as the lessor, lease agreements of properties for business and residential use.

The properties for business use are leased to both third parties and to intragroup companies. In the latter case, the properties and spaces occupied by the administrative offices of the companies of the Group are the subject matter of these contracts.

As regards the properties for residential use, these are primarily owned flats leased to third parties. The contracts for residential use generally have a duration of 4+4 years, while those for business use a duration of 6+6 years.

For the most part, active leases are primarily protected by the payment of a security deposit or surety bond by the tenant, as required by current legislation. This amount can be used to repair any damage that the tenant may cause.

In addition to this, the Parent Company does not apply any specific contractual clause regarding the management of any risk associated with the rights held on the underlying assets.

Following the incorporation of the subsidiary MPS Leasing & Factoring S.p.A. in 2023, the Parent Company operates in the financial leasing market, stipulating contracts mainly for companies and offering products in the real estate, capital goods, vehicles, energy and aircraft sectors, using its own network and, at the same time, single-firm agents.

As at 31 December 2023, the Parent Company had approximately 22,573 contracts in its portfolio for a gross book value of EUR 3,685.3 mln, of which EUR 2,154.9 mln in the real estate leasing sector (3,852 contracts), EUR 1,035.7 mln in the capital goods sector (10,967 contracts), EUR 266.1 mln in the vehicle sector (7,272 contracts), EUR 187.9 mln in the energy sector (328 contracts) and EUR 40.7 mln in the aviation sector (154 contracts). The value of the lease agreements executed during the year amounted to EUR 502 mln (no. 2,258), down 45.9% from the previous year, according to the commitment of reduction of lease portfolio. The company's performance by segment in terms of volume shows a contraction compared to the previous year for real estate (-61%; EUR -202 mln) for capital goods (-42.3%; EUR -196 mln), vehicles (-20.6%; EUR -25 mln), energy (-9.2%; EUR -1 mln) and aerospace (-24.8%; EUR -0.5 mln).

The Parent Company recognises financial leasing in compliance with the accounting standard IFRS 16 and classifies the transactions under financial assets measured at amortised cost.

The other companies of the Group do not have outstanding lease agreements in the capacity of Lessor.



Quantitative Information

1. Information on the balance sheet and income statement

For information on loans for leasing and assets transferred under operating leasing, see tables 4.2, 9.1 and 9.6a of Section 4 and Section 9, Part B, Assets; for the information on interest income on loans for leasing and on other income from financial and business leasing, see tables 1.1 and 16.2 respectively in Section 1 and in Section 16, Part C of these Notes to the Consolidated Financial Statements.

2. Quantitative information - Financial leases

2.1 Quantitative information - Financial leases

Time bands	31 12 2023	31 12 2022
	Total lease payments receivable	Total lease payments receivable
Up to 1 year	828,788	848,257
from 1 to 2 years	458,561	605,811
from 2 to 3 years	502,826	508,460
from 3 to 4 years	396,122	419,757
from 4 to 5 years	451,125	314,274
over 5 years	1,102,285	1,151,536
Total lease payments receivable	3,739,707	3,848,095
Reconciliation with investments		-
Not accrued gains	(479,367)	(447,473)
Unguaranteed residual values	(629,803)	(547,521)
Finance lease	2,630,535	2,853,101
<i>explicit credit</i>	220,408	200,763
<i>Net impairment on lease finance</i>	(434,463)	(446,270)
<i>Redemption fee on lease finance</i>	629,803	547,521
Book value of finance lease	3,046,283	3,155,115

The table shows the classification by time bands of payments to be received for leasing and the reconciliation between the payments to be received and the loans for lease financing in the portfolio as at 31 December 2023. The amounts are not discounted (IFRS 16.94).

2.2 Other information

Financial lease agreements, executed with customers, allow for a risk management on the underlying assets in line with the policies of the Group but they do not provide for repurchase agreements, guarantees on the residual value or variable payments.



3. Quantitative information - Operating leases

3.1 Classification by time bands of payments to be received

Time bands	year	31 12 2023	year	31 12 2022
		Total lease payments receivable (excluding VAT)		Total lease payments receivable (excluding VAT)
Up to 1 year	2023	6,870	2022	6,330
from 1 to 2 years	2024	6,892	2023	6,456
from 2 to 3 years	2025	6,717	2024	6,694
from 3 to 4 years	2026	6,524	2025	7,007
from 4 to 5 years	2027	5,602	2026	7,111
over 5 years	starting from 2028	16,800	starting from 2027	22,205
Total		49,405		55,803

The table shows the classification by time bands of payments to be received for the leasing by the Parent Company (IFRS 16.97). The amount of payments shown are not actualised.

The other companies of the Group do not have outstanding lease agreements in the capacity of Lessor.

3.2 Other information

No other information to report.



Public disclosure State by State

The Bank of Italy Circular no. 285/2013, Part One (Title III, Chapter 2) has transposed into Italian law the public disclosure set out in art. 89 - Communication by country - of Directive 2013/36/EU ("CRD IV") which introduces the obligation to disclose information concerning banking activities, subdivided by country where each bank is based; the disclosure is to be provided in the financial statements or posted on the entity's website.

In particular, the Parent Companies of banking groups are required to provide on a consolidated basis the following information, subdivided by country:

- a) Names of the companies based in the country and nature of the business
- b) Turnover
- c) Number of Full-time equivalent employees
- d) Profit or loss before tax
- e) Tax on profit or loss
- f) Public subsidies received

The tables below present the required information for the Group, with reference to the situation as at 31 December 2023.

The term "Turnover" refers to the net interest and other banking income as recorded in item 120 of the consolidated income statement.

The term "Number of full-time equivalent employees" refers to an average number representing the ratio between the total number of hours worked by all employees, excluding overtime, and the total annual number of hours contractually required of full-time employees.

"Profit or loss before tax" means the sum of items 280 and 310 (the latter before taxes) of the consolidated income statement.

"Tax on profit or loss" means the sum of taxes recorded in item 290 of the consolidated income statement and income taxes on assets under disposal.

The item "Public subsidies received" should indicate any grants received directly from the public administrations. This item does not include transactions performed by central banks for purposes of financial stability or transactions carried out to facilitate the monetary policy transmission mechanism. Similarly, transactions included in government aid schemes approved by the European Commission should not be taken into consideration.



31 12 2023

Country	Turnover (€/1000)	Number of FTEs	Profit or loss before tax (€/1000)	Tax on profit or loss (€/000)	Public subsidies received (€/000)
Algeria		1			
China	896	15	(577)	(7)	
Egypt		2			
France	43,608	139	5,772	(458)	
India		1			
Italy	3,759,248	15,643	1,733,023	341,835	162
Morocco		1			
Russia		1			
Tunisia		1			
Turkey		2			
Total Group companies	3,803,752	15,805	1,738,218	341,370	162
Companies under significant influence valued at equity	-	-	90,793	-	-
Consolidation adjustments	(93,299)	-	(122,503)	3,747	-
Total Montepaschi's Group	3,710,453	15,805	1,706,508	345,117	162

It is to be noted that the subsidiary MPS TENIMENTI POGGIO BONELLI E CHIGI SARACINI SOCIETA' AGRICOLA S.p.A. has received EUR 0.2 mln in 2023 as subsidies, grants and bonuses to support agricultural production in EU countries.

**List of Montepaschi Group companies by location and business type**

Country	Company name	type of business	Country
Algeria	BANCA MONTE DEI PASCHI DI SIENA S.p.a.	Financial services for business	Representative office in Algery
China	BANCA MONTE DEI PASCHI DI SIENA S.p.a.	Retail & Corporate banking service	Shanghai branch, representative office in Beijing
Egypt	BANCA MONTE DEI PASCHI DI SIENA S.p.a.	Financial services for business	Representative office in Cairo
France	MONTE PASCHI BANQUE S.A.	Retail & Corporate banking service	
India	BANCA MONTE DEI PASCHI DI SIENA S.p.a.	Financial services for business	Representative office in Mumbai
Italy	AIACE REOCO S.r.l. in liquidazione	Attività immobiliare	
Italia	BANCA MONTE DEI PASCHI DI SIENA S.p.a.	Retail & Corporate banking service	
Italy	CIRENE FINANCE S.r.l.	Financial services for business	Special Purpose Entity (SPE)
Italy	G.IMM ASTOR S.r.l.	Real estate leasing	
Italy	MAGAZZINI GENERALI FIDUCIARI DI MANTOVA S.p.a.	Warehousing	
Italy	MONTE PASCHI FIDUCIARIA S.p.a.	Trust management	
Italy	MPS TENIMENTI POGGIO BONELLI E CHIGI SARACINI SOCIETA' AGRICOLA S.p.a.	Winery	
Italy	MPS COVERED BOND 2 s.r.l.	Financial services for business	Special Purpose Entity (SPE)
Italy	MPS COVERED BOND S.R.L.	Financial services for business	Special Purpose Entity (SPE)
Italy	SIENA MORTGAGES 10-7 S.r.l.	Financial services for business	Special Purpose Entity (SPE)
Italy	SIENA LEASE 2016 2 SRL	Financial services for business	Special Purpose Entity (SPE)
Italy	SIENA MORTGAGES 07-5 S.p.a.	Financial services for business	Special Purpose Entity (SPE)
Italy	SIENA MORTGAGES 09-6 S.R.L.	Financial services for business	Special Purpose Entity (SPE)
Italy	SIENA PMI 2016 SRL	Financial services for business	Special Purpose Entity (SPE)
Italy	WISE DIALOG BANK S.p.a. - WIDIBA	Retail & Corporate banking service	On line Bank
Morocco	BANCA MONTE DEI PASCHI DI SIENA S.p.a.	Financial services for business	Representative office in Casablanca
Russia	BANCA MONTE DEI PASCHI DI SIENA S.p.a.	Financial services for business	Representative office in Moscowa
Tunisia	BANCA MONTE DEI PASCHI DI SIENA S.p.a.	Financial services for business	Representative office in Tunis
Turkey	BANCA MONTE DEI PASCHI DI SIENA S.p.a.	Financial services for business	Representative office in Instabul



**CERTIFICATION OF THE CONSOLIDATED FINANCIAL
STATEMENTS PURSUANT TO ART. 81-TER OF CONSOB
REGULATION NO. 11971 OF 14 MAY 1999, AS SUBSEQUENTLY
AMENDED AND SUPPLEMENTED**

1. The undersigned, Luigi Lovaglio, as Chief Executive Officer, and Nicola Massimo Clarelli, as Financial Reporting Officer of Banca Monte dei Paschi di Siena S.p.A., also 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 administrative and accounting procedures used in the preparation of the consolidated financial statements for financial year 2023.
2. The verification of the adequacy and effective application of administrative and accounting procedures for the preparation of the consolidated financial statements during 2023 was based on methods defined 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 consolidated financial statements:
 - were prepared in accordance with the international accounting standards recognised by the European Union pursuant to European Parliament and Council Regulation No. 1606/2002 of 19 July 2002;
 - are consistent with the underlying documentary evidence and accounting records;
 - are suitable to provide a true and fair representation of the capital, economic and financial situation of the issuer and group of companies included within the scope of consolidation.
 - 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 and of all entities included within the scope of consolidation, together with a description of the main risks and uncertainties they are exposed to.

Siena, 29 February 2024

Signed by
On behalf of the Board of Directors
The Chief Executive Officer
Luigi Lovaglio

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 No. 39 of 27 January 2010 and article 10 of Regulation (EU) No. 537/2014

To the shareholders of
Banca Monte dei Paschi di Siena SpA

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Monte dei Paschi di Siena Group (the Group), which comprise the consolidated balance sheet as of 31 December 2023, the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity, consolidated cash flow statement for the year then ended, and notes to the consolidated financial statements, including material accounting policy information.

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as of 31 December 2023, and of the result of its operations and 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 to implement article 9 of Legislative Decree No. 38/05 and article 43 of Legislative Decree No. 136/15.

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 Consolidated Financial Statements* section of this report. We are independent of Banca Monte dei Paschi di Siena SpA (the "Bank" or the "Parent Company") pursuant to the regulations and standards on ethics and independence applicable to audits of financial statements under Italian law. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

PricewaterhouseCoopers SpA

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Key audit matters	Auditing procedures performed in response to key audit matters
Valuation of loans to customers measured at amortised cost <i>Notes to the consolidated financial statements:</i> <i>Part A – Accounting policies;</i> <i>Part B – Information on the consolidated balance sheet, Section 4 – Financial assets measured at amortised cost;</i> <i>Part C – Information on the consolidated income statement, Section 8 – Net impairment (losses) /reversals for credit risk;</i> <i>Part E – Information on risks and hedging policies, Section 2 – Risks of prudential consolidation, paragraph 1.1 – Credit risk.</i> Loans to customers as at 31 December 2023 represent the predominant part of line item 40 b) “Financial assets measured at amortised cost – loans to customers” which shows a balance equal to Euro 86,754 million, corresponding to 71 per cent of the total assets of the financial statements. Net impairment losses on loans to customers recognised in the year amounted to Euro 431 million (line item 130 a) in the income statement). Special attention was paid to the valuation of the above-said loans as part of the audit because of the materiality of the value of loans in relation to the financial statements, as a whole, as well as because the related impairment losses consist of estimates made by the directors which incorporate elements of subjectivity and complexity related to the complex valuation processes, methods and assumptions utilised. The use of significant assumptions in the estimation processes specifically regards, besides the verification of the significant increase in credit risk for the allocation of the portfolios to the various risk stages, the determination of parameters used in the models to calculate the expected loss on a collective basis and, for loans being assessed on an individual basis, for the estimation of the expected future cash flows of the related timing	In performing the audit, we considered the internal control system relevant to the preparation of the financial statements in order to design audit procedures that were appropriate in the circumstances. In this respect, we also considered the integration and update of the management overlays which were required to take into account any potential worsening of credit risk linked to the current and future economic and financial risks, including climate-environmental risks that are not currently factored in the models in use. In order to address this key audit matter, the following main activities were performed, also with the support of PwC network experts: • understanding, evaluation and verification of the operating effectiveness of relevant controls over the IT systems and applications used; • understanding and evaluation of the design of relevant controls as part of the monitoring, classification and valuation of loans and testing of the operating effectiveness of such controls; • understanding and verification of the appropriateness of policies, procedures and models used to measure the significant increase in credit risk, for the allocation of the portfolios to the various risk stages and for measuring the expected loss both on an individual and collective basis, taking also into account the results of back-testing implemented by the Group and of the findings from the investigation on credit risk carried out by the Supervisory Authority; • understanding and verification of the methods used to determine the main estimation parameters in the context of the models used to measure the expected loss on a collective basis, taking into account the adjustments made during the year to the models already used. We also verified the

<i>Key audit matters</i>	<i>Auditing procedures performed in response to key audit matters</i>
and realisable value of the underlying guarantees, if any. Furthermore, for the current year these estimation processes were also impacted by the integration and update of the management overlays which were required to take into account any potential worsening of credit risk linked to the current and future economic and financial risks, including climate-environmental risks that are not currently factored in the models in use. These circumstances entailed, as pointed out in the notices and recommendations of the Supervisory Authorities and standard setters, the review of the processes and methods to measure loans, with reference to both the determination of the significant increase in credit risk and to the determination of the main variables and parameters used in the calculation models of the expected loss on a collective basis.	methods to determine management overlays in order to assess their reasonableness; • verification, on a sample basis, of the reasonableness of the classification among performing loans (stage 1 and stage 2) and non-performing loans (stage 3) based on the available information on the status of the borrower and other pieces of information available, including external information; • verification of the correct application of the measurement criteria established for loans classified as performing (stage 1 and stage 2), of the completeness and accuracy of the model input data used to determine the expected loss on a collective basis; • with specific regard to non-performing loans (stage 3), taking into account the financial statement classification according to the categories under the applicable regulatory framework and the currently assumed recovery scenarios (sale or internal recovery), for loans assessed on an individual basis, we checked, on a sample basis, the reasonableness of the assumptions made to estimate the expected credit loss with particular reference to the identification and quantification of the expected future cash flows from the recovery activities, to the evaluation of the guarantees backing these exposures and to the estimate of the recovery times; • for non-performing loans valued on a collective basis, we verified the correct determination of the main estimation parameters within the model used, as well as the completeness and accuracy of the model input data; • benchmark analysis procedures on the customer loan portfolio and related coverage levels and analysis of the most significant fluctuations, taking into consideration loss forecasts within and outside the Group (such as the Financial Stability Report issued by the Bank of Italy) and discussing the most significant changes and the elements characterizing the loan portfolio with management; • critical reading of the minutes of the corporate governance bodies and the correspondence

<i>Key audit matters</i>	<i>Auditing procedures performed in response to key audit matters</i>
	- with the Supervisory Authorities; - performance of audit procedures on subsequent events; - acquisition of specific written representations from management; - check of the completeness and adequacy of the disclosures provided in accordance with the provisions of international accounting standards, the applicable regulatory framework, as well as with the notices and recommendations issued by the Supervisory Authorities and standard setters.

Evaluation of legal risks

Notes to the consolidated financial statements:

Part A – Accounting policies;

Part B – Information on the consolidated balance sheet, Section 10 – Provisions for risks and charges;

Part C – Information on the consolidated income statement, Section 13 – Net provisions for risks and charges;

Part E – Information on risks and hedging policies, Section 2 – Risks of prudential consolidation, paragraph 1.5 – Operational risks.

The Parent Company is exposed to significant civil disputes, to the effects of the rulings due to criminal proceedings and to out-of-court claims, with reference to the financial information publicly disseminated in the period from 2008 to 2015, as well as to risks linked to representations and warranties given in the disposal and derecognition of non-performing loans.

Net provisions for risks and charges amounted in the year to positive Euro 468 million (line item 200 b) in the income statement) of which Euro 145 million related to new provisions in the year and Euro 612 million related to reversals.

The evaluation process of these legal risks that the Group performed with the support also of its legal counsel and other external experts, with particular reference to provisions related

In performing the audit, we considered the internal control system relevant to the preparation of the financial statements in order to design audit procedures that were appropriate in the circumstances.

In order to address this key audit matter, the following main activities were performed, also with the support of PwC network experts:

- understanding and assessment of the design of relevant controls implemented by the Group in relation to the management and assessment of legal risks and verification of the operating effectiveness of such controls;
- obtainment and analysis of the written confirmation from the Group's legal advisors about their considerations on the evolution of the pending lawsuits, the possibility of loss, as well as the main information used;
- analysis of the reasonableness of the directors' assumptions for estimating provisions and reversals made, in addition to the methods and conclusions included in the reports prepared by the external experts engaged by the Group. This activity was carried out with particular reference to the changes in the assessment of the risk of losing the civil and criminal lawsuits regarding the financial information disseminated to the public in the 2008-2015 period, following the rulings handed down during the year;
- performance of procedures to validate the completeness and accuracy of the data used to

<i>Key audit matters</i>	<i>Auditing procedures performed in response to key audit matters</i>
to civil and criminal disputes and out-of-court claims deriving from information publicly disseminated in the period from 2008-2015, as well as the provisions linked to representations and warranties given in the disposal and derecognition of non-performing loans, is considered a key audit matter, for the aggregate high value of these risks, as well as because estimating the associated charges requires management to make use of estimates which, by their very nature, are marked by a high degree of subjectivity. Furthermore, for the current year, this estimation process proved to be far more complex since the evolution of the judicial proceedings, with particular reference to certain rulings handed down during 2023, determined a significant change in the assessed risk of losing the civil and criminal lawsuits regarding the financial information disseminated to the public during the 2008-2015 period.	• determine the provisions for risks and charges; critical reading of the minutes of the corporate governance bodies and the correspondence with the Supervisory Authorities; • performance of audit procedures on subsequent events; • acquisition of specific written representations from management; • verification of the completeness and adequacy of disclosures connected with the key audit matter in question, with reference also to the requirements of the applicable accounting standards.

Recoverability of deferred tax assets

Notes to the consolidated financial standards:

Part A – Accounting policies;

Part B – Information on the consolidated balance sheet, Section 11 – Tax assets and tax liabilities;

Part C – Information on the consolidated income statement, Section 21 – Tax expense (recovery) on income from continuing operations.

As of 31 December 2023, the Group recorded Euro 1,320 million in the asset line item 110 "Tax assets" for net deferred tax assets ("DTA") related to tax losses that cannot be converted into tax credits and other deductible temporary differences, whose recoverability depends on the availability of taxable income in the future. Taxes for the year amount to a positive value of Euro 345 million (line item 300 in the income statement) mainly related to the effect of the DTA assessment, equal to a positive value of Euro 827 million, and to the net reversals for the year.

In performing the audit, we considered the internal control system relevant to the preparation of the financial statements in order to design audit procedures that were appropriate in the circumstances.

Specifically, in order to address this key audit matter, the following main activities were performed, also with the support of PwC network experts:

- understanding and evaluation of the process and methodology adopted by the directors to carry out the probability test;
- check of the consistency of the methodology adopted with the provisions of the applicable international financial reporting standard, taking into account professional practices, as well as the notices and recommendations of the Supervisory Authorities and standard setters;
- assessment, including through a check of external data, where available, of the

<i>Key audit matters</i>	<i>Auditing procedures performed in response to key audit matters</i>
The assessment of the recoverability of these assets is a key audit matter because they are significant in value with respect to the financial statements, taken as a whole, and because their valuation is based on an estimation process (probability test), which entails using assumptions and parameters, considering their very nature, that include a high degree of subjectivity. Specifically, the aforesaid estimation process relies on prospective balance sheet and income statement projections, consistent with the 2022-2026 Group Business Plan approved by the Board of Directors of the Parent Company on 22 June 2022, which must be supplemented by valuation assumptions such as (i) the determination of taxable income that is expected to be realised in the time-period considered for the DTA recovery, (ii) the growth rates used for the projection of future taxable income and the probability that there will be future taxable income, (iii) the extent of the foreseeable time-period for the recovery of DTAs, (iv) the correct interpretation of the applicable tax legislation.	reasonableness of the main qualitative and quantitative assumptions (revenue flows, discount and growth rates) and of the different types of deductible temporary differences based on the applicable tax legislation, used to prepare the probability test; • analysis of the reasonableness of the prospective balance sheet and income statement projections used and verification of the consistency with the 2022-2026 Group Business Plan; • verification of the mathematical accuracy of calculations underlying the probability test and the correctness of the calculations performed; • critical reading of the minutes of the corporate governance bodies and the correspondence with the Supervisory Authorities; • acquisition of specific written representations from management; • check of the completeness and adequacy of disclosures provided by the directors in the notes to the consolidated financial statements in accordance with international accounting principles requirements and the applicable regulatory framework, as well as with the notices and recommendations issued by the Supervisory Authorities and standard setters.

Responsibilities of the Directors and the Board of Statutory Auditors for the Consolidated Financial Statements

The directors are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union, as well as with the regulations issued to implement article 9 of Legislative Decree No. 38/05 and article 43 of Legislative Decree No. 136/15 and, in the terms prescribed by law, for such internal control as they determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

The directors are responsible for assessing the Group's ability to continue as a going concern and, in preparing the consolidated financial statements, for the appropriate application of the going concern basis of accounting, and for disclosing matters related to going concern. In preparing the consolidated financial statements, the directors use the going concern basis of accounting unless they either intend to liquidate the parent company Banca Monte dei Paschi di Siena SpA or to cease operations, or have no realistic alternative but to do so.

The board of statutory auditors is responsible for overseeing, in the terms prescribed by law, the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated 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 the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

As part of our audit conducted in accordance with International Standards on Auditing (ISA Italia), we exercised professional judgement and maintained professional scepticism throughout the audit. Furthermore:

- We identified and assessed the risks of material misstatement of the consolidated financial statements, whether due to fraud or error; we designed and performed audit procedures responsive to those risks; we 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 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 Group's internal control;
- We evaluated the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors;
- We concluded on the appropriateness of the 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 Group'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 consolidated 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 Group to cease to continue as a going concern;
- We evaluated the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation;
- We obtained sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion on the consolidated financial statements.

We 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 identified during our audit.



We also provided those charged with governance with a statement that we complied with the regulations and standards on ethics and independence applicable under Italian law and communicated with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate the related risks, or safeguards applied.

From the matters communicated with those charged with governance, we determined those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We described these matters in our auditor's report.

Additional Disclosures required by Article 10 of Regulation (EU) No. 537/2014

On 11 April 2019, the shareholders of Banca Monte dei Paschi di Siena SpA engaged us to perform the legal audit of the stand-alone and the consolidated financial statements for the years ending 31 December 2020 to 31 December 2028.

We declare that we did not provide any prohibited non-audit services referred to in article 5, paragraph 1, of Regulation (EU) No. 537/2014 and that we remained independent of the Bank in conducting the statutory audit.

We confirm that the opinion on the consolidated financial statements expressed in this report is consistent with the additional report to the board of statutory auditors, in its capacity as audit committee, prepared pursuant to article 11 of the aforementioned Regulation.

Report on Compliance with other Laws and Regulations

Opinion on compliance with the provisions of Commission Delegated Regulation (EU) 2019/815

The directors of Banca Monte dei Paschi di Siena SpA are responsible for the application of the provisions of Commission Delegated Regulation (EU) 2019/815 concerning regulatory technical standards on the specification of a single electronic reporting format (ESEF - European Single Electronic Format) (hereinafter, the "Commission Delegated Regulation") to the consolidated financial statements as of 31 December 2023, to be included in the annual report.

We have performed the procedures specified in auditing standard (SA Italia) No. 700B in order to express an opinion on the compliance of the consolidated financial statements with the provisions of the Commission Delegated Regulation.

In our opinion, the consolidated financial statements as of 31 December 2023 have been prepared in the XHTML format and have been marked up, in all significant respects, in compliance with the provisions of the Commission Delegated Regulation.

Due to certain technical limitations, some information included in the notes to the consolidated financial statements when extracted from the XHTML format to an XBRL instance may not be reproduced in an identical manner with respect to the corresponding information presented in the consolidated financial statements in the XHTML format.



Opinion in accordance with Article 14, paragraph 2, letter e), of Legislative Decree No. 39/2010 and Article 123-bis, paragraph 4, of Legislative Decree No. 58/1998

The directors of Banca Monte dei Paschi di Siena SpA are responsible for preparing a report on operations and a report on the corporate governance and ownership structure of the Monte dei Paschi di Siena Group as of 31 December 2023, including their consistency with the relevant consolidated financial statements and their compliance with the law.

We have performed the procedures required under auditing standard (SA Italia) No. 720B in order to express an opinion on the consistency of the report on operations and of the specific information included in the report on corporate governance and ownership structure referred to in article 123-bis, paragraph 4, of Legislative Decree No. 58/98, with the consolidated financial statements of the Monte dei Paschi di Siena Group as of 31 December 2023 and on their compliance with the law, as well as to issue a statement on material misstatements, if any.

In our opinion, the report on operations and the specific information included in the report on corporate governance and ownership structure mentioned above are consistent with the consolidated financial statements of the Monte dei Paschi di Siena Group as of 31 December 2023 and are prepared in compliance with the law.

With reference to the statement referred to in article 14, paragraph 2, letter e), of Legislative Decree No. 39/2010, issued on the basis of our knowledge and understanding of the company and its environment obtained in the course of the audit, we have nothing to report.



***Statement in accordance with article 4 of Consob's Regulation implementing
Legislative Decree No. 254 of 30 December 2016***

The directors of Banca Monte dei Paschi di Siena SpA are responsible for the preparation of the non-financial disclosure pursuant to Legislative Decree No. 254 of 30 December 2016.

We have verified that the directors approved the non-financial disclosure.

Pursuant to article 3, paragraph 10, of Legislative Decree No. 254 of 30 December 2016, the non-financial disclosure is the subject of a separate attestation statement issued by ourselves.

Florence, 18 March 2024

PricewaterhouseCoopers SpA

Signed by

Marco Palumbo
(Partner)

This independent auditor's report has been translated into the English language solely for the convenience of international readers. Accordingly, only the original text in Italian language is authoritative.



Annexes

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



Reconciliation between the reclassified income statement as at 31 December 2023 and related statutory accounts

Item	Income Statement accounts	31/12/23	Customer repayments	Reclassification of dividends on treasury stock transactions	Reclassification of the portion of profit from equity investments	Reduction provision to BRCD and DGS funds	Recovery of stamp duty and customers' expenses	DTA Fee	Restructuring costs (Personnel expenses for early retirement)	Restructuring costs (Closure of Branches)	Securitization, Recapitalization and Commitment Costs	Training cost recoveries	Cost of credit	31/12/23	Reclassified Income Statement accounts
10	Interest income and similar revenues of which interest income calculated applying the effective interest rate method	4,364.2	0.1	-	-	-	-	-	-	-	-	-	-	2,292.1	Net interest income
20	Interest expense and similar charges	3,633.7	0.1	-	-	-	-	-	-	-	-	-	-	4,364.3	
		(2,072.2)	-	-	-	-	-	-	-	-	-	-	-	(2,072.2)	
40	Fee and commission income	1,556.2	(3.7)	-	-	-	-	-	-	-	-	-	-	1,321.9	Net fee and commission income
50	Fee and commission expense	(230.6)	(3.7)	-	-	-	-	-	-	-	-	-	-	1,555.5	
		(230.6)	-	-	-	-	-	-	-	-	-	-	-	(230.6)	
70	Dividends and similar income	26.5	-	(6.0)	86.6	-	-	-	-	-	-	-	-	107.1	Dividends, similar income and gains (losses) on equity investments
80	Net profit (loss) from trading	55.0	-	6.0	-	-	-	-	-	-	-	-	(9.4)	67.3	Net profit (loss) from trading, the fair value measurement of assets/liabilities and Net gains (losses) on disposals/repurchases
100	Gains/(losses) on disposal/repurchase of:	9.9	-	-	-	-	-	-	-	-	-	-	0.1	10.0	
	a) financial assets measured at amortised cost	9.1	-	-	-	-	-	-	-	-	-	-	0.1	9.2	
	b) Financial assets measured at fair value through other comprehensive income	1.0	-	-	-	-	-	-	-	-	-	-	-	1.0	
	c) financial liabilities	(0.2)	-	-	-	-	-	-	-	-	-	-	-	(0.2)	
110	Net profit (loss) from other financial assets and liabilities measured at fair value through profit or loss	5.8	-	-	-	-	-	-	-	-	-	-	(9.5)	(3.7)	
	a) financial assets and liabilities designated at fair value	(3.1)	-	-	-	-	-	-	-	-	-	-	-	(3.1)	
	b) other financial assets mandatorily measured at fair value	8.9	-	-	-	-	-	-	-	-	-	-	(9.5)	(0.6)	
90	Net profit (loss) from hedging	(4.4)	-	-	-	-	-	-	-	-	-	-	-	(4.4)	Net profit (loss) from hedging
230	Other operating expenses/income	215.4	-	-	-	-	(197.1)	-	-	-	-	(5.5)	-	12.8	Other operating income (expenses)
190	Administrative expenses:	(2,089.2)	-	-	-	133.7	197.1	62.9	8.2	2.2	12.4	5.5	-	(1,667.1)	Administrative expenses
	a) personnel expenses	(1,192.0)	-	-	-	-	-	-	8.2	-	-	4.2	-	(1,179.6)	a) personnel expenses
	b) other administrative expenses	(897.2)	-	-	-	133.7	197.1	62.9	-	2.2	12.4	1.3	-	(487.5)	b) other administrative expenses
210	Net adjustments to/recoveries on property, plant and equipment	(108.4)	-	-	-	-	-	-	-	-	-	-	-	(175.7)	Net value adjustments to property, plant and equipment and intangible assets
220	Net adjustments to/recoveries on intangible assets	(67.3)	-	-	-	-	-	-	-	-	-	-	-	(108.4)	
		(67.3)	-	-	-	-	-	-	-	-	-	-	-	(67.3)	
130	Net impairment (losses)/reversals on:	(430.7)	-	-	-	-	-	-	-	-	-	-	(2.8)	(440.3)	Cost of customers credit
	a) financial assets measured at amortised cost	(431.2)	-	-	-	-	-	-	-	-	-	-	3.7	(427.5)	130a) financial assets measured at amortised cost - customers
	b) financial assets measured at fair value through other comprehensive income	0.5	-	-	-	-	-	-	-	-	-	-	(0.5)	(0.1)	100a) Loans to customers measured at amortised cost
		-	-	-	-	-	-	-	-	-	-	-	(0.1)	(0.1)	110b) Loans
		-	-	-	-	-	-	-	-	-	-	-	9.5	9.5	200 a) Net provision for risks and charges related to financial guarantees and other commitments
		-	-	-	-	-	-	-	-	-	-	-	(15.4)	(15.4)	140 Modification gains (losses)
140	Modification gains/(losses)	(6.8)	-	-	-	-	-	-	-	-	-	-	(3.2)	(6.8)	Net impairment (losses)/reversals on securities and loans to banks
160	Net insurance premiums	-	-	-	-	-	-	-	-	-	-	-	-	(3.2)	
170	Other net insurance income (expense)	-	-	-	-	-	-	-	-	-	-	-	-	-	
200	Net provision for risks and charges:	452.1	3.7	-	-	-	-	-	-	-	-	-	15.4	471.2	Net provisions for risks and charges
	a) commitments and guarantees issued	(15.4)	-	-	-	-	-	-	-	-	-	-	15.4		
	b) other net provisions	467.5	3.7	-	-	-	-	-	-	-	-	-	-	471.2	
250	Gains (losses) on investments	83.6	-	-	(86.6)	-	-	-	-	-	-	-	-	(3.0)	Gains (losses) on investments
		-	-	-	-	-	-	(8.2)	(2.2)	(12.4)	-	-	-	(22.9)	Restructuring costs /One-Off costs
		-	-	-	(133.7)	-	-	-	-	-	-	-	-	(133.7)	Risks and charges related to the SRF, DGS and similar schemes
		-	-	-	-	-	(62.9)	-	-	-	-	-	-	(62.9)	DTA Fee
260	Net gain (losses) on property, plant and equipment and intangible assets measured at fair value	(53.1)	-	-	-	-	-	-	-	-	-	-	-	(53.1)	Net gain (losses) on property, plant and equipment and intangible assets measured at fair value
280	Gains (losses) on disposal of investments	0.4	-	-	-	-	-	-	-	-	-	-	-	0.4	Gains (losses) on disposal of investments
290	Profit (loss) before tax from continuing operations	1,706.5	-	-	-	(0.0)	-	-	-	-	-	-	(0.0)	1,706.5	Profit (loss) for the period before tax
300	Tax (expense)/recovery on income from continuing operations	345.1	-	-	-	-	-	-	-	-	-	-	-	345.1	Income taxes for the year
310	Profit (loss) after tax from continuing operations	2,051.6	-	-	-	(0.0)	-	-	-	-	-	-	(0.0)	2,051.6	Profit (loss) after tax
320	Profit (loss) after tax from groups of assets held for sale and discontinued operations	-	-	-	-	-	-	-	-	-	-	-	-	-	
330	Profit (loss) for the year	2,051.6	-	-	-	(0.0)	-	-	-	-	-	-	(0.0)	2,051.6	Net profit (loss) for the period
340	Profit (loss) attributable to non-controlling interests	(0.2)	-	-	-	-	-	-	-	-	-	-	-	(0.2)	Net profit (loss) attributable to non-controlling interests
		-	-	-	-	-	-	-	-	-	-	-	-	-	PPA (Purchase Price Allocation)
	Parent company's net profit (loss) for the year	2,051.8	-	-	-	-	-	-	-	-	-	-	-	2,051.8	Parent company's net profit (loss) for the period



Reconciliation between the reclassified income statement as at 31 December 2022 and related statutory accounts

Item	Income Statement accounts	31/12/22*	Customer repayments	Redclassification of dividends on treasury stock transactions	Redclassification of the portion of profits from equity investments	Redclassification provision to BRD and DGS funds	Recovery of stamp duty and customers' expenses	DTA Fee	Restructuring costs (Personnel expenses for early retirement)	Securitization, Recapitalization and Commitment Costs	Cost of credit	31/12/22*	Reclassified Income Statement accounts
10	Interest income and similar revenues <i>of which interest income calculated applying the effective interest rate method</i>	2,149.7 1,863.7	0.4 0.4	- -	- -	- -	- -	- -	- -	- -	- -	1,535.6 2,150.1	Net interest income
20	Interest expense and similar charges	(614.5)	-	-	-	-	-	-	-	-	-	(614.5)	
40	Fee and commission income	1,585.0	6.6	-	-	-	-	-	-	-	-	1,364.6	Net fee and commission income
50	Fee and commission expense	(227.0)	0.3	-	-	-	-	-	-	-	-	(226.7)	
70	Dividends and similar income	26.3	-	(5.0)	90.3	-	-	-	-	-	-	111.6	Dividends, similar income and gains (losses) on equity investments
80	Net profit (loss) from trading	(23.7)	-	5.0	-	0.9	-	-	-	-	(10.2)	74.1	Net profit (loss) from trading, the fair value measurement of assets/liabilities and Net gains (losses) on disposals/repurchases
100	Gains/(losses) on disposal/repurchase of: a) financial assets measured at amortised cost b) Financial assets measured at fair value through other comprehensive income c) financial liabilities	52.0 50.8 1.2 -	- - - -	- - - -	- - - -	- - - -	- - - -	- - - -	- - - -	- - - -	(2.8) (2.8) - -	49.2 48.0 1.2 -	
110	Net profit (loss) from other financial assets and liabilities measured at fair value through profit or loss a) financial assets and liabilities measured at fair value b) other financial assets mandatorily measured at fair value	50.1 31.7 18.4	- - -	- - -	- - -	0.9 - 0.9	- - -	- - -	- - -	- - -	(7.4) - (7.4)	43.6 31.7 11.9	
90	Net profit (loss) from hedging	6.2	-	-	-	-	-	-	-	-	-	6.2	Net profit (loss) from hedging
230	Other operating expenses/income	227.6	(0.3)	-	-	-	(199.8)	-	-	-	-	27.6	Other operating income (expenses)
190	Administrative expenses: a) personnel expenses b) other administrative expenses	(3,293.6) (2,321.8) (971.8)	- - -	- - -	- - -	178.8 199.8 178.8	199.8 - 199.8	62.9 - 62.9	928.3 928.3 -	3.2 - 3.2	- - -	(1,920.6) (1,393.5) (527.1)	Administrative expenses a) personnel expenses b) other administrative expenses
210	Net adjustments to/recoveries on property, plant and equipment	(118.9)	-	-	-	-	-	-	-	-	-	(118.9)	Net value adjustments to property, plant and equipment and intangible assets
220	Net adjustments to/recoveries on intangible assets	(68.6)	-	-	-	-	-	-	-	-	-	(68.6)	
130	Net impairment (losses)/reversals on: a) financial assets measured at amortised cost b) financial assets measured at fair value through other comprehensive income	(430.5) (430.3) (0.2)	- - -	- - -	- - -	- - -	- - -	- - -	- - -	- - -	9.3 0.9 0.2	(416.9) (429.4) (0.0)	Cost of customers loans 130a) financial assets measured at amortised cost - customers 100a) Loans to customers measured at amortised cost 110b) Loans 200 a) Net provision for risks and charges related to financial guarantees and other commitments 140 Modification gains (losses)
140	Modification gains/(losses)	4.3	-	-	-	-	-	-	-	-	(1.1)	(1.1)	Net impairment (losses)/reversals on securities and loans to banks
160	Net insurance premiums	-	-	-	-	-	-	-	-	-	-	-	
170	Other net insurance income (expense)	-	-	-	-	-	-	-	-	-	-	-	
200	Net provision for risks and charges: a) commitments and guarantees issued b) other net provisions	6.7 (2.0) 8.7	(6.7) - (6.7)	- - -	- - -	- - -	- - -	- - -	- - -	- - -	2.0 2.0 2.0	2.0 - 2.0	Net provisions for risks and charges
250	Gains (losses) on investments	94.0	-	-	(90.3)	-	-	-	-	-	-	3.7	Gains (losses) on investments
260	Net gain (losses) on property, plant and equipment and intangible assets measured at fair value	(31.1)	-	-	-	(179.7)	-	(62.9)	(928.3)	(3.2)	-	(931.4)	Restructuring costs /One-Off costs Risks and charges related to the SRF, DGS and similar schemes DTA Fee
280	Gains (losses) on disposal of investments	0.8	-	-	-	-	-	-	-	-	-	0.8	Gains (losses) on disposal of investments
290	Profit (loss) before tax from continuing operations	(605.1)	-	-	-	-	-	-	-	-	0.0	(605.1)	Profit (loss) for the period before tax
300	Tax (expense)/recovery on income from continuing operations	426.6	-	-	-	-	-	-	-	-	-	426.6	Income taxes for the year
310	Profit (loss) after tax from continuing operations	(178.5)	-	-	-	-	-	-	-	-	0.0	(178.5)	Profit (loss) after tax
320	Profit (loss) after tax from groups of assets held for sale and discontinued operations	-	-	-	-	-	-	-	-	-	-	-	
330	Profit (loss) for the year	(178.5)	-	-	-	-	-	-	-	-	0.0	(178.5)	Net profit (loss) for the year
340	Profit (loss) attributable to non-controlling interests	(0.1)	-	-	-	-	-	-	-	-	-	(0.1)	Net profit (loss) attributable to non-controlling interests
	Parent company's net profit (loss) for the year	(178.4)	-	-	-	-	-	-	-	-	-	(178.4)	PPA (Purchase Price Allocation) Parent company's net profit (loss) for the year



Reconciliation between the reclassified balance sheet and related statutory accounts as at 31 December 2023

Balance-sheet Items - Assets	31/12/23	Other financial assets @ FVTPLM - Loans to banks	Loans to customers	Trading derivatives	Securities	Loans to Banks @ AC - Loans to Central Banks	Non-current assets held for sale and disposal groups	Change in value of macro-hedged financial assets	31/12/23	Reclassified Balance-sheet Items - Assets
10 Cash and cash equivalents	14,317.3								14,317.3	Cash and cash equivalents
20 Financial assets measured at fair value through profit or loss	6,251.6		(123.3)	(2,072.2)	13,220.4		0.4		17,276.9	Securities assets
a) financial assets held for trading	5,882.8			(2,072.2)	13,220.4		0.4		13,220.8	
b) financial assets designated at fair value	-								3,810.6	
c) other financial assets mandatorily measured at fair value	368.8		(123.3)						245.5	
30 Financial assets measured at fair value through other comprehensive income	2,477.3				(2,477.3)					
40 Financial assets measured at amortised cost	90,544.4					526.8			526.8	Loans to central banks
a) Loans to banks	3,790.9				(681.9)	(526.8)			2,582.2	Loans to banks
b) Loans to customers	86,753.5		123.3		(10,061.2)				76,815.6	Loans to customers
50 Hedging derivatives	704.1			2,072.2					2,776.3	Derivatives
60 Change in value of macro-hedged financial assets (+/-)	(561.2)							561.2	-	
70 Equity investments	726.7								726.7	Equity investments
80 Reinsurers' share of technical reserve	-								-	
90 Property, plant and equipment	2,228.7						75.8		2,304.5	Property, plant and equipment
100 Intangible assets	178.2								178.2	Intangible assets
- of which goodwill	7.9								7.9	- of which goodwill
110 Tax assets	2,150.9								2,150.9	Tax assets
a) current	308.4								308.4	a) current
b) deferred	1,842.5		-						1,842.5	b) deferred
120 Non-current assets held for sale and disposal groups	76.2		-				(76.2)		2,958.3	Other assets
130 Other assets	3,519.5		-					(561.2)	-	Non-current assets held for sale and disposal groups
									2,958.3	Other assets
Total Assets	122,613.7	-	-	-	-	-	-	-	122,613.7	Total Assets



Items	Balance-sheet Items - Liabilities	31/12/23	Due to central banks	Due to banks	Debt securities issued - customers	Trading derivatives	Financial liabilities designated at fair value	Provision for staff severance indemnities	Change in value of macro-hedged financial liabilities (+/-)	Group Net Equity	31/12/23	Reclassified balance-sheet items - Liabilities
10	Financial liabilities measured at amortised cost	105,026.5									90,639.0	Direct funding
	a) due to banks	14,498.8	(13,148.2)	(1,350.6)							-	
	b) due to customers	80,422.1			136.3						80,558.4	a) due to customers
	c) debts securities issued	10,105.6			(136.3)		111.3				10,080.6	b) Securities issued
			13,148.2								13,148.2	Due to central banks
				1,350.6							1,350.6	Due to banks
20	Financial liabilities held for trading	2,854.7				(1,031.5)					1,823.2	On-balance-sheet financial liabilities held for trading
30	Financial liabilities designated at fair value	111.3					(111.3)				-	
											1,361.7	Derivatives
40	Hedging derivatives	330.2									330.2	Hedging derivatives
						1,031.5					1,031.5	Trading derivatives
50	Change in value of macro-hedged financial liabilities (+/-)	(16.1)							16.1		-	
60	Tax liabilities	9.1									9.1	Tax liabilities
	a) current	3.6									3.6	a) current
	b) deferred	5.5									5.5	b) deferred
70	Liabilities associated with non-current assets held for sale and disposal groups	-									-	
									(16.1)		3,252.4	Other liabilities
											(16.1)	Change in value of macro-hedged financial liabilities (+/-)
											-	Liabilities associated with non-current assets held for sale and disposal group
80	Other liabilities	3,268.5									3,268.5	Other liabilities
90	Provisions for employees severance pay	72.0						(72.0)			-	
100	Provisions for risks and charges:	978.3									1,050.3	Provisions for specific use
	a) financial guarantees and other commitments	154.3						72.0			72.0	a) Provision for staff severance indemnities
	b) post-employment benefits	3.4									154.3	b) Provision related to guarantees and other commitments given
	c) other provisions	820.6									3.4	c) Pension and other post-retirement benefit obligations
											820.6	d) Other provisions
120	Valuation reserves	27.9								(27.9)	-	
150	Reserves	445.3								-445.3	-	
											9,978.5	Group net equity
										27.9	27.9	a) Valuation reserves
											-	b) Redeemable shares
											-	c) Equity Instruments
										445.3	445.3	d) Reserves
											-	e) Share premium reserve
170	Share capital	7,453.5									7,453.5	f) Share capital
										-	-	g) Treasury shares (-)
										2,051.8	2,051.8	h) Net profit (loss) for the year
180	Treasury shares (-)	-								-	-	
190	Non-controlling interests (+/-)	0.7									0.7	Non-controlling interests
200	Profit (loss) for the year (+/-)	2,051.8								(2,051.8)	-	
	Total Liabilities and Shareholders' Equity	122,613.7	-	-	-	-	-	-	-	-	122,613.7	Total Liabilities and Shareholders' Equity



Reconciliation between the reclassified balance sheet and related statutory accounts as at 31 December 2022

Balance-sheet Items - Assets	31 12 2022*	Loans to customers	Trading derivatives	Securities	Loans to Banks @ AC - Loans to Central Banks	Non-current assets held for sale and disposal groups	Change in value of macro-hedged financial assets	31 12 2022*	Reclassified Balance-sheet Items - Assets
10 Cash and cash equivalents	12,538.6	-	-	-	-	-	-	12,538.6	Cash and cash equivalents
20 Financial assets measured at fair value through profit or loss	6,756.7	-	-	-	-	-	-	18,393.6	Securities assets
-	-	-	-	14,115.9	-	-	-	14,115.9	
a) financial assets held for trading	6,299.4	-	(2,336.5)	-	-	-	-	3,962.9	
b) financial assets designated at fair value	-	-	-	-	-	-	-	-	
c) other financial assets mandatorily measured at fair value	457.3	(142.5)	-	-	-	-	-	314.8	
30 Financial assets measured at fair value through other comprehensive income	4,352.3	-	-	(4,352.3)	-	-	-	-	
40 Financial assets measured at amortised cost	88,464.6	-	-	-	-	-	-	-	
-	-	-	-	-	628.1	-	-	628.1	Loans to central banks
a) Loans to banks	3,255.6	-	-	(677.4)	(628.1)	-	-	1,950.1	Loans to banks
b) Loans to customers	85,209.0	142.5	-	(9,086.2)	-	-	-	76,265.3	Loans to customers
50 Hedging derivatives	1,077.1	-	2,336.5	-	-	-	-	3,413.6	Derivatives
60 Change in value of macro-hedged financial assets (+/-)	(908.7)	-	-	-	-	-	908.7	-	
70 Equity investments	750.7	-	-	-	-	-	-	750.7	Equity investments
80 Technical insurance reserves reassured with third parties	-	-	-	-	-	-	-	-	
90 Property, plant and equipment	2,375.9	-	-	-	-	65.5	-	2,441.4	Property, plant and equipment
100 Intangible assets	162.6	-	-	-	-	-	-	162.6	Intangible assets
- of which goodwill	7.9	-	-	-	-	-	-	7.9	- of which goodwill
110 Tax assets	2,216.4	-	-	-	-	-	-	2,216.4	Tax assets
a) current	718.3	-	-	-	-	-	-	718.3	a) current
b) deferred	1,498.1	-	-	-	-	-	-	1,498.1	b) deferred
-	-	-	-	-	-	-	-	1,474.9	Other assets
120 Non-current assets held for sale and disposal groups	65.5	-	-	-	-	(65.5)	-	-	Non-current assets held for sale and disposal groups
130 Other assets	2,383.6	-	-	-	-	-	(908.7)	1,474.9	Other assets
Total Assets	120,235.3	-	-	-	-	-	-	120,235.3	Total Assets

* The balance sheet values as at 31 December 2022 were restated, compared to those published at the reporting date, following the retrospective application of the new IFRS 17 "Insurance contracts" and IFRS 9 "Financial instruments" by the insurance associates.



Items	Balance-sheet Items - Liabilities	31 12 2022*	Due to central banks	Due to banks	Debt securities issued - customers	Trading derivatives	Financial liabilities designated at fair value	Provision for staff severance indemnities	Change in value of macro-hedged financial liabilities (+/-)	Group Net Equity	31 12 2022*	Reclassified balance-sheet items - Liabilities
10	Financial liabilities measured at amortised cost	103,283.4									81,997.6	Direct funding
	a) due to banks	21,382.8	(19,176.9)	(2,205.9)								
	b) due to customers	73,349.6			7.2						73,356.8	a) due to customers
	c) debts securities issued	8,551.0			(7.2)		97.0				8,640.8	b) Securities issued
			19,176.9								19,176.9	Due to central banks
				2,205.9							2,205.9	Due to banks
20	Financial liabilities held for trading	3,988.5				(1,421.3)					2,567.2	On-balance-sheet financial liabilities held for trading
30	Financial liabilities designated at fair value	97.0					(97.0)				-	
40	Hedging derivatives	301.6									1,722.9	Derivatives
											301.6	Hedging derivatives
						1,421.3					1,421.3	Trading derivatives
50	Change in value of macro-hedged financial liabilities (+/-)	(77.4)							77.4		-	
60	Tax liabilities	6.6									6.6	Tax liabilities
	a) current	-									-	a) current
	b) deferred	6.6									6.6	b) deferred
70	Liabilities associated with non-current assets held for sale and disposal groups	-										
									(77.4)		3,111.5	Other liabilities
											-77.4	Change in value of macro-hedged financial liabilities (+/-)
											0	Liabilities associated with non-current assets held for sale and disposal groups
80	Other liabilities	3,188.9									3,188.9	Other liabilities
90	Provisions for employees severance pay	70.2						(70.2)				
100	Provisions for risks and charges:	1,515.5									1585.7	Provisions for specific use
	a) financial guarantees and other commitments	142.5						70.2			70.2	a) Provision for staff severance indemnities
	b) post-employment benefits	26.6									142.5	b) Provision related to guarantees and other commitments given
	c) other provisions	1346.4									26.6	c) Pension and other post-retirement benefit obligations
											1,346.4	d) Other provisions
120	Valuation reserves	(26.9)								26.9		
150	Reserves	611.9								(611.9)		
170	Share capital	7453.5									7,860.1	Group net equity
										(26.9)	(26.9)	a) Valuation reserves
											-	b) Redeemable shares
											-	c) Equity Instruments
										611.9	611.9	d) Reserves
											-	e) Share premium reserve
											7,453.5	f) Share capital
										-	-	g) Treasury shares (-)
										(178.4)	(178.4)	h) Net profit (loss) for the year
180	Treasury shares (-)	-								-	-	
190	Non-controlling interests (+/-)	0.9									0.9	Non-controlling interests
200	Profit (loss) for the year (+/-)	(178.4)								178.4	0	
	Total Liabilities and Shareholders' Equity	120,235.3	-	-	-	-	-	-	-	-	120,235.3	Total Liabilities and Shareholders' Equity

* The balance sheet values as at 31 December 2022 were restated, compared to those published at the reporting date, following the retrospective application of the new IFRS 17 "Insurance contracts" and IFRS 9 "Financial instruments" by the insurance associates.



Disclosure of independent auditors' fees

Pursuant to the provisions of art. 149-duodecies of the Consob Issuers' Regulations, the table below provides information on the fees paid to the Independent Auditors PricewaterhouseCoopers SpA and to the companies belonging to the same network for the services detailed below:

31 12 2023

Type of services	Service provider	Total
Auditing	Pricewaterhousecoopers S.p.a.	1,518
Other attest services	Pricewaterhousecoopers S.p.a.	780
Total		2,298

Amounts are exclusive of V.A.T., ancillary expenses and CONSOB contribution.

**PENSION FUNDS – Defined benefit pension funds without plan assets****Obligation for “Supplementary Pension Fund for personnel of former Provveditori”**

Accounting statement as at 31 12 2023	(in units of Eur)
Opening balance as at 01 01 2023	2,120,127
Increases	34,998
- provisions for the year	9,088
- Other	25,910
Decreases	261,198
- Benefit paid	261,198
- Other	-
Closing balance as at 31 12 2023	1,893,927

“Supplementary Pension Fund for personnel of former Credito Lombardo”

Accounting statement as at 31 12 2023	(in units of Eur)
Opening balance as at 01 01 2023	1,638,383
Increases	61,143
- provisions for the year	61,143
- Other	-
Decreases	212,788
- Benefit paid	208,555
- Other	4,233
Closing balance as at 31 12 2023	1,486,738



SEPARATE ANNUL REPORT OF MONTE DEI PASCHI DI SIENA BANK

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REPORT ON OPERATIONS

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



Results in brief

Below are the main figures of the income statement and balance sheet of Banca Monte dei Paschi di Siena as at 31 December 2023, calculated on the basis of the reclassified financial statements, the methods of which are illustrated in the section “Income statement and balance sheet reclassification principles” of this Report. In addition, in order to allow a homogeneous comparison, the income statement and balance sheet data referring to the previous year are restated, where necessary, to retroactively reflect the effects of the corporate transactions that took place in 2023. In particular, the restatements concerned the merger into Banca MPS of the two wholly-owned subsidiaries: MPS Leasing & Factoring S.p.A. and MPS Capital Services Banca per le Imprese S.p.A., which took place on 24 April 2023 and 29 May 2023, with backdating, for both, of the accounting and tax effects from 1 January 2023. The analytical details of the restatements with respect to those published as at 31 December 2022 and the reclassifications made with respect to the required format, pursuant to the Bank of Italy Circular 262, are provided, with separate statements included in the annexes, also in compliance with the requirements of Consob with Communication no. 6064293 of 28 July 2006.

INCOME STATEMENT AND BALANCE SHEET FIGURES			
MONTE DEI PASCHI DI SIENA BANK			
INCOME STATEMENT FIGURES (EUR mln)	31 12 2023	31 12 2022*	Chg.
Net interest income	2,096.2	1,469.2	42.7%
Net fee and commission income	1,288.5	1,327.7	-3.0%
Other income from banking business	202.6	209.8	-3.4%
Other operating income and expenses	21.2	36.5	-
Total Revenues	3,608.5	3,043.2	18.6%
Operating expenses	(1,755.2)	(2,023.6)	-
Cost of customer credit	(393.7)	(419.3)	-6.1%
Other value adjustments	(3.1)	(1.1)	n.m.
Net operating income (loss)	1,456.5	599.2	n.m.
Non-operating items	196.7	(1,194.4)	n.m.
Net profit (loss) for the year	2,021.5	(234.4)	n.m.
BALANCE SHEET FIGURES AND INDICATORS (EUR mln)	31 12 2023	31 12 2022	Chg.
Total assets	121,890.2	118,942.6	2.5%
Loans to customers	77,088.1	76,123.4	1.3%
Direct funding	86,722.8	77,851.8	11.4%
Indirect funding	89,719.0	87,306.4	2.8%
of which: assets under management	51,628.8	52,861.7	-2.3%
of which: assets under custody	38,090.2	34,444.7	10.6%
Net equity	9,641.7	7,500.9	28.5%
OPERATING STRUCTURE	31 12 2023	31 12 2022	Chg.
Total headcount - end of period	16,180	16,180	n.m.
Number of branches in Italy	1,362	1,362	n.m.

* The income statement and balance sheet figures as at 31 December 2022 were restated, compared to those published at the reference date, in order to retroactively reflect corporate transactions that occurred during 2023 and to also reflect the discontinued application of the reclassifications on PPA and Rent receivables.



ALTERNATIVE PERFORMANCE MEASURES			
MONTE DEI PASCHI DI SIENA BANK			
PROFITABILITY RATIOS (%)	31 12 2023	31 12 2022	Chg.
Cost/Income ratio	48.6	66.5	-17.9
ROE (on average equity)	23.6	(2.2)	25.8
Return on Assets (RoA) ratio	1.7	(0.2)	1.9
ROTE (Return on tangible equity)	24.0	(2.3)	26.3
CREDIT QUALITY RATIOS (%)	31 12 2023	31 12 2022	Chg.
Net NPE ratio	2.2	2.2	n.m.
Gross NPL ratio	3.7	3.5	0.2
Rate of change of non-performing loans to customers	15.6	(23.2)	38.8
Bad loans to customers/ Loans to Customers	0.6	0.6	n.m.
Loans to customers measured at amortised cost - Stage 2/Performing loans to customers measured at amortised cost	12.7	14.8	-2.1
Coverage of non-performing loans to customers	48.5	47.6	0.9
Coverage of bad loans to customers	67.4	64.4	3.0
Provisioning	0.51	0.55	-0.04
Texas Ratio	30.4	36.2	-5.8

* The figures as at 31 December 2022 have been restated, with respect to those published at the reference date, to also retroactively reflect the corporate transactions that took place in 2023, taking into account the discontinued application of reclassifications on PPAs and Rent receivables.

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

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

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

Return On Tangible Equity (ROTE): ratio between the Net profit (loss) for the year and the average between the tangible shareholders' equity⁶⁴ at the end of financial year and that at the end of the previous year.

Net NPE ratio: ratio between Net Non-performing loans to customers and total loans to customers. net of assets under disposal.

Gross NPL Ratio: gross impact of non-performing loans calculated based on the European Banking Authority (EBA)⁶⁵ guidelines as the ratio between Gross non-performing loans to customers and banks⁶⁶, net of assets under disposal, and total Gross loans to customers and banks, net of assets under disposal.

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

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

Provisioning: ratio between the cost of customer credit and the sum of loans to customers and the value of securities deriving from transfer/securitisation of non-performing loans.

Texas Ratio: ratio between gross non-performing loans to customers and the sum, in the denominator, of the relative loss provisions and tangible shareholders' equity.

⁶⁴ Book value of the Bank shareholders' equity inclusive of profit (loss) for the year, net of goodwill and other intangible assets.

⁶⁵ EBA GL/2018/10.

⁶⁶ Loans to Banks include current accounts and sight deposits with banks and central banks classified as "Cash" under balance sheet assets.



REGULATORY MEASURES			
MONTE DEI PASCHI DI SIENA BANK			
CAPITAL RATIOS (%)	31 12 2023	31 12 2022	Chg.
Common Equity Tier 1 (CET1) ratio - phase in	17.8	19.0	-1.2
Total Capital ratio - phase in	21.4	23.7	-2.3

In determining the capital ratios, the “phase-in” (or “transitional”) version represents the application of calculation rules according to the regulatory framework in force at the reporting date.

Common equity Tier 1 (CET1) ratio: ratio between primary quality capital and total risk-weighted assets (RWA).⁶⁷

Total Capital ratio: ratio between Own Funds and total RWAs.

⁶⁷ Defined by art. 4 of Regulation EU/2013/575 (Capital Requirements Regulation, CRR). It consists of the eligible elements and capital instruments, net of the envisaged adjustments and deductions.

⁶⁸ Risk-weighted assets: the result of the application of certain risk weights to exposures, determined according to supervisory rules



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

Reclassified accounts

The balance sheet and income statement are shown below in reclassified form according to management criteria in order to provide an indication of the Bank's general performance based on economic and financial information that can be quickly and easily determined.

A disclosure is provided below on the aggregations and main reclassifications systematically performed with respect to the financial statements established by Circular no. 262/05. It should be noted that, starting in 2023, the following reclassifications were no longer carried out due to the low materiality of the items impacted in the first case and a more precise and accurate analysis of the performance in the second case; the comparative periods have been therefore restated in order to allow for a homogeneous comparison. More specifically:

- the economic effects of the Purchase Price Allocation (PPA) of past business combinations, which impacted the items "Net interest income", "Net value adjustments on property, plant and equipment and intangible assets" and "Income taxes for the period", are no longer recognised in the specific item (PPA) but remain in the economic items concerned;
- Rental income, previously reclassified to the item "Net value adjustments on property, plant and equipment and intangible assets", remain in the item "Other operating income/expenses".

Reclassification principles

- The item "**Net interest income**" was cleared of the portion relative to customer repayments of EUR -0.1 mln, for which provisions were made in the item "Other net provisions for risks and charges".
- The item "**Net fee and commission income**" includes the balance of financial statement item 40 "Fee and commission income", which was cleared of the portion of reimbursements to customers referring to previous years (EUR +3.7 mln), recognised under item "Other net provisions for risks and charges" and the balance of item 50 "Fee and commission expense".
- The item "**Dividends, similar income and profit (losses) on investments**" includes Item 70 of the financial statements "Dividends and similar income" net of the dividends earned on equity securities other than equity investments (EUR 6.0 mln), reclassified under item "Net profit from trading, fair value measurement of assets/liabilities and gains from disposals/repurchases".
- The item "**Net profit from trading, the fair value measurement of assets/liabilities and Net gains (losses) on disposals/repurchases**" includes the figures of items 80 "Net profit (loss) from trading", 100 "Net gains (losses) on disposals/repurchases", net of the contribution of loans to customers (EUR +0.1 mln) recognised in the reclassified item "Cost of customer credit" and 110 "Net profit (loss) from other financial assets and liabilities measured at fair value through profit or loss", net of the contribution from loans to customers (EUR -0.5 mln) and securities deriving from the transfer/securitisation of non-performing loans⁶⁹ (EUR +10.0 mln), recognised in the reclassified item "Cost of customer credit". In addition, the aggregate incorporates dividends earned on equity securities other than equity investments (EUR +6.0 mln).
- Item "**Net profit (loss) from hedging**" includes financial statement item 90 "Net profit (loss) from hedging".
- The item "**Other operating income/expenses**" includes the balance of item 200 "Other operating expenses/income" net of:
 - stamp duty and other expenses recovered from customers, which are now under the reclassified item "Other administrative expenses" (EUR 182,3 mln);
 - recovery of training expenses, reclassified as decreases in "Personnel expenses" (EUR 4.2 mln) and "Other administrative expenses" (EUR 1.3 mln).
- The Item "**Personnel expenses**" includes the balance of item 190a "Personnel expenses" from which costs of EUR 8.2 mln were excluded, reclassified under "Restructuring/one-off costs". The item also incorporates

⁶⁹ Starting from December 2021, the economic effects relating to securities deriving from multi-originator sales of non-performing loan portfolios associated with the type of the assignment to (i) a mutual investment fund with allocation of the corresponding shares to the transferring intermediaries or to (ii) a securitisation vehicle pursuant to Law 130/99 with the simultaneous subscription of the ABS securities by the assignor banks, and accounted for in item 110 "Net profit (loss) from other financial assets and liabilities measured at fair value through profit or loss", were reclassified to item "Cost of customer credit".



the recovery of training costs (EUR 4.2 mln) recognised in the financial statements under item 200 "Other operating expenses/income".

- The item "**Other administrative expenses**" includes the balance of financial statement item 160b "Other administrative expenses", reduced by the following cost items:
 - charges, amounting to EUR 129,5 mln, introduced by banks under the single resolution fund (SRF) and deposit protection mechanisms (Deposit Guarantee Schemes, DGS), attributed to the reclassified item "Risks and charges associated to SRF, DGS and similar schemes";
 - DTA fee, convertible into tax credit, for an amount of EUR 62.9 mln posted to the reclassified item "DTA fee";
 - charges of EUR 12.4 mln, relating to initiatives also aimed at complying with the commitments undertaken with DG Comp, stated under reclassified item "Restructuring costs/One-off costs";
 - charges, amounting to EUR 2.2 mln, referring to the branch closures envisaged in the Business Plan, recognised under the reclassified item "Restructuring costs/One-off costs".

The item also incorporates the following amounts, recognised in the financial statements under item 200 "Other operating expenses/income":

 - stamp duty and other expenses recovered from customers (EUR 182,3 mln);
 - recovery of training expenses (EUR 1.3 mln).
- Item "**Net value adjustments to property, plant and equipment and intangible assets**" includes the values of the financial statements items 180 "Net value adjustments to/recoveries on property, plant and equipment" and 190 "Net value adjustments to/recoveries on intangible assets".
- Item "**Cost of customer credit**" includes the income statement components relating to loans to customers of items 100a "Gains/losses on disposal or repurchase of financial assets measured at amortised cost" (EUR 0.1 mln), 110b "Net profit (loss) on financial assets and liabilities mandatorily measured at fair value" (EUR -0.5 mln), 130a "Net impairment (losses)/reversals for credit risk on financial assets measured at amortised cost" (EUR -381.6 mln), 140 "Modification Gains/losses" (EUR -6.8 mln) and 170a "Net provisions for risks and charges: net provisions for commitments and guarantees issued" (EUR -15.0 mln). The item also includes the income statement components relating to securities deriving from the transfer/securitisation of non-performing loans recognised in item 110b "Net profit (loss) of other financial assets mandatorily measured at fair value" (EUR +10.0 mln).
- The item "**Net impairment losses/reversals on securities and loans to banks**" includes the portion relating to securities (EUR -3.9 mln) and loans to banks (EUR +0.2 mln) of item 130a "Net impairment (losses)/reversals for credit risk of financial assets measured at amortised cost" and item 130b "Net impairment (losses)/reversals for credit risk of financial assets measured at fair value through other comprehensive income" (EUR +0.6 mln).
- The item "**Other net provisions for risks and charges**" includes the balance of item 170 "Net provisions for risks and charges" less the component relating to loans to customers of item 170a "commitments and guarantees given" (EUR -15.0 mln), which was reclassified to the specific item "Cost of customer credit". The item also includes the reimbursements to customers relating to past years recognised in the financial statements under "Net interest income" for EUR -0.1 mln and "Fee and commission income" for EUR +3.7 mln.
- The item "**Other gains (losses) on equity investments**" includes the balance of financial statement item 220 "Gains (losses) on investments".
- Item "**Restructuring costs/One-off costs**" includes the following amounts:
 - costs for EUR 8.2 mln relating to exits through the early retirement plan or access to the Solidarity Fund accounted for in the financial statements in item 190a "Personnel expenses";
 - charges of EUR 12.4 mln, relating to project initiatives, also aimed at complying with the commitments undertaken with DG Comp, accounted for in the financial statements under item 160b "Other administrative expenses".
 - charges of EUR 2.2 mln, referring to branch closures envisaged in the Business Plan and accounted for in the financial statements under item 190b "Other administrative expenses".
- Item "**Risks and charges associated with SRF, DGS and similar schemes**" includes charges related to contributions to deposit-guarantee schemes and resolution mechanisms, amounting to EUR 129.5 mln, posted in the financial statements under item 190b "Other administrative expenses".



- Item **“DTA fee”** includes the expenses related to the fees paid on DTAs that can be converted into tax credit as set forth in art. 11 of Italian Law Decree no. 59 of 3 May 2016, converted into Italian Law no. 119 of 30 June 2016, recognised in the financial statements under item 190b “Other administrative expenses”, for EUR 62.9 mln.
- Item **“Net gains (losses) on property, plant and equipment and intangible assets measured at fair value”** includes the balance of financial statement item 230 “Net gains (losses) on property, plant and equipment and intangible assets measured at fair value”.
- Item **“Gains (losses) on disposal of investments”** includes the balance of financial statement item 250 “Gains (losses) on disposal of investments”.
- Item **“Income taxes for the year”** includes the balance of item 270 “Income taxes for the year from current operations”.

Balance sheet reclassification principles

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

- Asset item **“Loans to central banks”** includes the portion relating to operations with central banks of item 40 “Financial assets measured at amortised cost”.
- Asset item **“Loans to banks”** includes the portion relating to loans to banks of financial statement items 40 “Financial assets measured at amortised cost”, 20 “Financial assets measured at fair value through profit or loss” and 110 “Non-current assets held for sale and disposal groups”.
- Asset item **“Loans to customers”** includes the portion relating to loans to customers of financial statement items 20 “Financial assets measured at fair value through profit or loss”, 40 “Financial assets measured at amortised cost” and 110 “Non-current assets held for sale and disposal groups”.
- Asset item **“Securities assets”** includes the portion relating to securities of items 20 “Financial assets measured at fair value through profit or loss”, 30 “Financial assets measured at fair value through other comprehensive income”, 40 “Financial assets measured at amortised cost” and 110 “Non-current assets held for sale and disposal groups”.
- Asset item **“Derivatives”** includes the portion relating to derivatives of items 20 “Financial assets measured at fair value through profit or loss” and 50 “Hedging derivatives”.
- Asset item **“Equity investments”** includes item 70 “Equity Investments” and the portion related to equity investments in item 110 “Non-current assets held for sale and disposal groups”.
- Asset item **“Property, plant and equipment and intangible assets”** includes items 80 “Property, plant and equipment”, 90 “Intangible assets” and the amounts related to property, plant and equipment and intangible assets in item 110 “Non-current assets held for sale and disposal groups”.
- Asset item **“Other assets”**, includes items 60 “Change in value of macro-hedged financial assets”, 120 “Other assets”, and the amounts in item 110 “Non-current assets held for sale and disposal groups” not included in the previous items.
- Liability item **“Due to customers”**, includes financial statement item 10b “Financial liabilities measured at amortised cost – due to customers” and the component relating to customer securities of financial statement item 10c “Financial liabilities measured at amortised cost - Debt securities issued”.
- Liability item **“Securities issued”** includes item 10c “Financial liabilities measured at amortised cost - Debt securities issued”, excluding the component relating to customer securities, and item 30 “Financial liabilities designated at fair value”.
- Liability item **“Due to Central Banks”** includes the portion of item 10a “Financial liabilities measured at amortised cost – Due to banks” relating to operations with central banks.
- Liability item **“Due to banks”** includes the portion of item 10a “Financial liabilities measured at amortised cost – Due to banks” relating to operations with banks (excluding central banks).
- Liability item **“On-balance-sheet financial liabilities held for trading”** includes the portion of item 20 “Financial liabilities held for trading” net of the amounts relating to derivatives for trading.



- Liability item “**Derivatives**” includes item 40 “Hedging derivatives” and the portion related to derivatives in item 20 “Financial liabilities held for trading”.
- Liability item “**Provision for specific use**” includes items 90 “Employee severance pay” and 100 “Provisions for risks and charges”.
- Liability item “**Other liabilities**” includes items 50 “Change in value of macro-hedged financial liabilities”, 70 “Liabilities associated with disposal groups” and 80 “Other liabilities”.
- Liability item “**Shareholders’ equity**” includes items 110 “Valuation reserves”, 120 “Redeemable shares”, 140 “Reserves”, 160 “Capital”, 170 “Treasury shares” and 180 “Profit (loss) for the year”.



Reclassified income statement

Reclassified Income Statement				
MONTE DEI PASCHI DI SIENA BANK	31 12 2023	31 12 2022*	Change	
			Abs.	%
Net interest income	2,096.2	1,469.2	627.0	42.7%
Net fee and commission income	1,288.5	1,327.7	(39.2)	-3.0%
Income from banking activities	3,384.7	2,796.9	587.8	21.0%
Dividends, similar income and gains (losses) on investments	137.0	128.7	8.3	6.5%
Net profit (loss) from trading, the fair value measurement of assets/liabilities and Net gains (losses) on disposals/repurchases	70.2	74.9	(4.7)	-6.2%
Net profit (loss) from hedging	(4.6)	6.2	(10.8)	n.m.
Other operating income (expenses)	21.2	36.5	(15.3)	-42.0%
Total Revenues	3,608.5	3,043.2	565.4	18.6%
Administrative expenses:	(1,594.4)	(1,852.3)	257.9	-13.9%
a) personnel expenses	(1,149.6)	(1,363.4)	213.7	-15.7%
b) other administrative expenses	(444.7)	(488.9)	44.2	-9.0%
Net value adjustments to property, plant and equipment and intangible assets	(160.8)	(171.3)	10.5	-6.1%
Operating expenses	(1,755.2)	(2,023.6)	268.4	-13.3%
Pre-Provision Operating Profit	1,853.4	1,019.6	833.8	81.8%
Cost of customer credit	(393.7)	(419.3)	25.6	-6.1%
Net impairment (losses)/reversals on securities and loans to banks	(3.1)	(1.1)	(2.0)	n.m.
Net operating income	1,456.5	599.2	857.3	n.m.
Net provisions for risks and charges	472.8	2.0	470.8	n.m.
Other gains (losses) on equity investments	(8.6)	0.8	(9.4)	n.m.
Restructuring costs / One-off costs	(22.8)	(929.6)	906.8	-97.5%
Risks and charges associated to the SRF, DGS and similar schemes	(129.5)	(174.3)	44.8	-25.7%
DTA Fee	(62.9)	(62.9)	(0.0)	0.0%
Net gains (losses) on property, plant and equipment and intangible assets measured at fair value	(52.4)	(30.7)	(21.7)	0.7
Gains (losses) on disposal of investments	0.1	0.3	(0.2)	-66.7%
Profit (Loss) for the year before tax	1,653.2	(595.2)	2,248.4	n.m.
Income taxes for the year	368.3	360.7	7.6	2.1%
Net profit (loss) for the year	2,021.5	(234.4)	2,255.9	n.m.

* The income statement figures as at 31 December 2022 were restated, compared to those published at the reference date, in order to retroactively reflect corporate transactions that occurred during 2023 and to also reflect the discontinued application of the reclassifications on PPA and Rent receivables.



Revenue trends

As at 31 December 2023, the Bank reported total **Revenues** for **EUR 3,608 mln**, up by 18.6% compared to the previous year.

This trend is attributable to the growth in Net Interest Income which, as regards lending, benefits from the favourable interest rate scenario, in a context of careful monitoring of the cost of funding. The positive performance of Net Interest Income more than offset the lower contribution of Net Fee and Commission income (recorded above all on income from asset management, due to the changed market scenario) and other revenue components.

Net Interest Income as at 31 December 2023 amounted to **EUR 2,096 mln**, an increase of 42.7% compared to 2022. This growth was mainly driven by (i) the increased contribution of the commercial sector, which benefited, inter alia, from higher interest income on loans, generated by the increase in interest rates, only partially compensated by the higher interests on collections, (ii) the higher contribution of the portfolio of securities as a result of higher yields, and (iii) the greater contribution from bank transactions. In relations with central banks, a net cost of EUR 89 mln was recognised as at 31 December 2023, compared to the net benefit of EUR 161 mln of 2022. This performance is attributable to the ECB's monetary policy decisions, which introduced several increases in reference rates and some changes, starting from 23 November 2022, to the terms and conditions applied to existing TLTRO auctions⁷⁰. In fact, a cost of EUR 409 mln (plus a further EUR 132 mln in interest expense relating to MRO and LTRO auctions) was recorded on the latter in 2023, compared to the benefit of EUR 131 mln recorded in the previous year; this effect was only partially offset by the income on liquidity deposited with central banks, equal to EUR 451 mln as at 31 December 2023 compared to EUR 30 mln in 2022. The cost of market funding also increased compared to the previous year, following the rise in rates and new issues in 2023 (senior preferred bonds for a nominal EUR 750 mln and EUR 500 mln issued in the first and third quarter of 2023, respectively).

Items	31 12 2023	31 12 2022	Chg. Y/Y	
			Abs.	%
Loans to customers measured at amortised cost	2,366.2	1,512.9	853.3	56.4%
Loans to Banks measured at amortised cost	(76.0)	(134.0)	58.1	-43.3%
Loans to Central Banks	(89.2)	160.6	(249.9)	n.m.
Government securities and other non-bank issuers at amortised cost	217.4	123.9	93.5	75.5%
Securities issued	(382.4)	(307.7)	(74.7)	24.3%
Hedging derivatives	(98.9)	(86.9)	(12.0)	13.8%
Trading portfolios	40.4	41.1	(0.7)	-1.7%
Portfolios measured at fair value	7.2	5.9	1.3	22.0%
Financial assets measured at fair value through other comprehensive income	45.9	43.8	2.1	4.8%
Other financial assets and liabilities	65.6	109.5	(43.9)	-40.1%
Net interest income	2,096.2	1,469.1	627.1	42.7%
<i>of which: interest income on impaired financial assets</i>	<i>82.6</i>	<i>61.6</i>	<i>21.0</i>	<i>34.1%</i>

Net fee and commission income as at 31 December 2023, totalling **EUR 1,289 mln**, showed a decline compared to the previous year (-3.0%), which was mainly due to income from asset management. In this respect, the higher income from assets under custody, due to the renewed interest on the part of customers for fixed-rate investments (mainly government bonds), partially offset the lower commissions from assets under management.

⁷⁰ It should be noted that the interest up to 23 June 2022 had benefited from the so-called "special interest rate period", with a rate applied equal to -1%; from 24 June until 22 November 2022, the rate applied and settled at maturity was the average rate on deposits with the Central Bank (Deposit Facility Rate or DFR), calculated from the date of issue until 22 November 2022, while starting from 23 November 2022, the rate applied is equal to the average DFR in force from that date until maturity.



Services/Values	31 12 2023	31 12 2022	Chg. Y/Y	
			ass.	%
Asset under management fees	500.5	523.5	(23.0)	-4.4%
Product placement	136.4	162.5	(26.1)	-16.0%
Continuing fees	364.1	361.1	3.1	0.8%
Fees and commissions from traditional services	773.8	776.1	(2.3)	-0.3%
Fees from brokered consumer credit	14.2	28.1	(13.8)	-49.3%
Net fees and commission income	1,288.5	1,327.7	(39.2)	-3.0%

Dividends, similar income and gains (losses) on investments totalled **EUR 137 mln**, an increase of EUR 8 mln compared to 31 December 2022 due to higher dividends received from investee companies.

The net result from trading, fair-value measurement of assets/liabilities and gains on disposals/repurchases as at 31 December 2023 amounted to EUR 70 mln, a decrease of EUR 5 mln compared to the previous year's figures. The analysis of the main aggregates shows the following:

- **Net profit from trading** was **EUR 61 mln**, compared to the loss of EUR -19 mln recorded in the previous year. The growth is mainly attributable to market maker activities on the reference markets, which in the current year benefited from a more favourable operating environment (also following the rates increase).
- **Net profit (loss) from other assets/liabilities measured at fair value through profit or loss** amounted essentially to **EUR -4 mln**, down compared to EUR 44 mln recorded in the previous year, which had benefited from higher capital gains recorded, in particular, on UCITS and on bond liabilities.
- **Profits from disposal/repurchase** (excluding loans to customers at amortised cost) of **EUR 13 mln**, realised against the sale of government securities in the portfolio of Financial assets measured at amortised cost of the Bank; in 2022, gains from the sale of government bonds at amortised cost amounted to EUR 49 mln.

Items	31 12 2023	31 12 2022	Chg. Y/Y	
			Abs.	%
Financial assets held for trading	176.9	(466.9)	643.8	n.m.
Financial liabilities held for trading	(65.9)	346.0	(411.9)	n.m.
Exchange rate effects	(7.2)	21.1	(28.3)	n.m.
Derivatives	(43.1)	81.0	(124.1)	n.m.
Trading results	60.7	(18.8)	79.5	n.m.
Net profit (loss) from other financial assets and liabilities measured at fair value through profit or loss	(3.7)	43.7	(47.4)	n.m.
Disposal / repurchase (excluding loans to customers measured at amortised cost)	13.3	50.0	(36.8)	-73.5%
Net profit (loss) from trading, the fair value measurement of assets/liabilities and Net gains (losses) on disposals/repurchases	70.2	74.9	(4.7)	-6.3%

The following items are also included in Revenues:

- **Net profit (loss) from hedging activities** was **EUR -5 mln**, down compared to 31 December 2022 (EUR +6 mln);
- **Other operating income/expenses** were positive for **EUR 21 mln**, compared to the positive result of EUR 37 mln in the previous year.



Operating expenses

Operating expenses totalled **EUR 1,755 mln** as at 31 December 2023, down compared with 2022 (-13.3%). A closer look at the individual aggregates reveals the following:

- **Administrative expenses** amounted to **EUR 1,594 mln**, down compared to 2022 (-13.9%). A breakdown of the aggregate shows:
 - **Personnel expenses**, which amounted to **EUR 1,150 mln**, were down by 15.7% compared to the previous year, mainly as a result of the *full-year* benefits related to the 2022 redundancy/solidarity fund measures; this decrease was only partly offset by the higher charges related to the renewal of the National Collective Labour Agreement for bankers and the variable incentive component of remuneration, which was not planned for 2022.
 - **Other administrative expenses**, which amounted to **EUR 445 mln**, were down compared to 31 December 2022 (-9.0%), thanks to a continuous process of cost reduction.
- **Net value adjustments to property, plant and equipment and intangible assets** totalled **EUR 161 mln** as at 31 December 2023, down compared to 2022 (-6.1%).

Type of transaction	31 12 2023	31 12 2022	Chg Y/Y	
			Abs.	%
Wages and salaries	(828.8)	(979.7)	150.9	-15.4%
Social-welfare charges	(226.0)	(271.0)	45.0	-16.6%
Other personnel expenses	(94.8)	(112.7)	17.8	-15.8%
Personnel expenses	(1,149.6)	(1,363.4)	213.7	-15.7%
Taxes	(195.4)	(196.8)	1.4	-0.7%
Furnishing, real estate and security expenses	(87.9)	(78.8)	(9.1)	11.5%
General operating expenses	(159.9)	(173.9)	14.0	-8.1%
Information technology expenses	(108.3)	(115.2)	6.9	-6.0%
Legal and professional expenses	(59.5)	(70.1)	10.6	-15.1%
Indirect personnel costs	(4.6)	(4.9)	0.3	-6.1%
Insurance	(16.0)	(18.6)	2.6	-14.0%
Advertising, sponsorship and promotions	(1.2)	(1.0)	(0.2)	20.0%
Other	5.8	(16.5)	22.3	n.m.
Expenses recovery	182.3	186.9	(4.6)	-2.5%
Other administrative expenses	(444.7)	(488.9)	44.2	-9.0%
Property, plant and equipment	(99.9)	(109.1)	9.2	-8.4%
Intangible assets	(60.9)	(62.2)	1.3	-2.1%
Net value adjustments to property, plant and equipment and intangible assets	(160.8)	(171.3)	10.5	-6.1%
Operating expenses	(1,755.2)	(2,023.6)	268.4	-13.3%

As a result of these factors, the Bank's **Gross Operating Income** totalled **EUR 1,853 mln** (EUR 1,020 mln at 31 December 2022).

Cost of customer credit

At 31 December 2023, the Bank recognised a **Cost of customer credit** equal to **EUR 394 mln**, down compared to EUR 419 mln of the previous year.

As at 31 December 2023, the ratio between the Cost of customer credit and the sum of Loans to customers and the value of securities deriving from transfer/securitisation transactions of non-performing loans expresses a **Provisioning Rate** of **51 bps** (55 bps as at 31 December 2022).

Items	31 12 2023	31 12 2022	Chg. Y/Y	
			Abs.	%
Loans to customers measured at amortised cost	(371.6)	(431.6)	60.0	-13.9%
Modification gains/(losses)	(6.8)	4.3	(11.1)	n.m.
Gains/(losses) on disposal/repurchase of loans to customers measured at amortised cost	0.2	2.9	(2.8)	-94.7%
Net change of Loans to customers mandatorily measured at fair value	(0.5)	6.7	(7.2)	n.m.
Net provisions for risks and charges on commitments and guarantees issued	(15.0)	(1.6)	(13.4)	n.m.
Cost of customer credit	(393.7)	(419.3)	25.5	-6.1%

The Bank's **Net Operating Income** as at 31 December 2023 is **positive by approximately EUR 1,456 mln**, compared to EUR +599 mln in the previous year.

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

The **Net profit (loss) for the year** included the following items:

- **Other net provisions for risks and charges** amounted to **EUR 473 mln** as at 31 December 2023, compared to EUR 2 mln recorded in the previous year. Net releases in 2023 are almost entirely attributable to the downgrading of the risk of disbursement of financial resources resulting from a potential negative outcome of the civil and criminal litigation relating to financial information disseminated in the period 2008-2015, following the favourable rulings issued in the last quarter of 2023.
- **Gains (losses) on investments** amounted to around **EUR -9 mln**, against a profit of EUR +1 mln in 2022.
- **Restructuring costs/One-off costs** of **EUR -23 mln** as at 31 December 2023 compared to a balance of EUR -930 mln in 2022, which included provisions allocated for the early retirement incentive/solidarity fund.
- **Risks and charges associated with SRF, DGS and similar schemes** amounted to **EUR -130 mln** as at 31 December 2023, consisting of contributions of EUR -59 mln due to the Single Resolution Fund (SRF), (recognised in the first quarter of 2023), and to the FIDT (DGS) for EUR -71 mln (recognised in the third quarter of 2023). The balance posted in 2022 was EUR -174 mln.
- **DTA fee**, amounted to **EUR -63 mln**, as at 31 December 2023, basically unchanged compared to what was recorded in the previous year. This amount, determined according to the criteria set forth in Italian Law Decree 59/2016 converted into Italian Law no. 119 of 30 June 2016, represents the fee as at 31 December 2023 on DTA (Deferred Tax Assets) that can be converted into a tax credit.
- **Net gains (losses) on property, plant and equipment and intangible assets measured at fair value** amounting to **EUR -52 mln** as at 31 December 2023, recognised as a result of the periodic revaluation of real estate assets, compared with the result of EUR -31 mln recognised as at 31 December 2022.
- **Gains on disposal of investments**, equal to **EUR 0.1 mln** as at 31 December 2023, in line with the amount recorded as at 31 December 2022 (EUR 0.3 mln).

As a result of the trends highlighted above, the Bank's **profit for the year before taxes** amounted to **EUR 1,653 mln**, compared to the Loss before tax of EUR 595 mln posted in the previous financial year.

Income Taxes for the year recorded a positive contribution of **EUR 368 mln** (positive result of EUR 361 mln as at 31 December 2022) mainly attributable to the valuation of DTAs net of taxation related to the economic result for the year, which also benefits from the acceleration, within the current probability test based on the Plan targets, of the recovery of the value of DTAs from tax losses resulting from the repeal of the ACE, starting from 2024 provided by Article 5 of Italian Legislative Decree 216 of 30 December 2023.

The **Bank's profit for the year** amounted to **EUR 2,022 mln**, compared to a loss of EUR 234 mln in 2022.



Reclassified balance sheet

Reclassified Balance Sheet				
Assets	31 12 2023	31 12 2022	Chg	
			abs.	%
Cash and cash equivalents	13,008.0	11,183.2	1,824.8	16.3%
Loans to central banks	519.3	618.7	(99.4)	-16.1%
Loans to banks	3,020.8	2,402.3	618.5	25.7%
Loans to customers	77,088.1	76,123.4	964.7	1.3%
Securities assets	17,249.0	18,346.0	(1,097.0)	-6.0%
Derivatives	2,785.4	3,413.6	(628.2)	-18.4%
Equity investments	764.9	776.0	(11.1)	-1.4%
Property, plant and equipment/Intangible assets	2,372.5	2,485.3	(112.8)	-4.5%
Tax assets	2,140.0	2,136.0	4.0	0.2%
Other assets	2,942.2	1,458.1	1,484.1	n.m.
Total assets	121,890.2	118,942.6	2,947.6	2.5%
Liabilities	31 12 2023	31 12 2022	Chg	
			abs.	%
Direct funding	86,722.8	77,851.7	8,871.1	11.4%
a) Due to customers	76,621.8	69,243.2	7,378.6	10.7%
b) Securities issued	10,101.0	8,608.5	1,492.5	17.3%
Due to central banks	13,148.2	19,176.9	(6,028.7)	-31.4%
Due to banks	4,942.3	5,480.8	(538.5)	-9.8%
On-balance-sheet financial liabilities held for trading	1,823.2	2,567.2	(744.0)	-29.0%
Derivatives	1,403.6	1,776.5	(372.9)	-21.0%
Provisions for specific use	1,034.2	1,569.3	(535.1)	-34.1%
a) Provision for staff severance indemnities	68.9	67.2	1.7	2.5%
b) Provision related to guarantees and other commitments given	153.5	142.0	11.5	8.1%
c) Pension and other post-retirement benefit obligations	3.4	26.6	(23.2)	-87.2%
d) Other provisions	808.4	1,333.5	(525.1)	-39.4%
Other liabilities	3,174.2	3,019.2	155.0	5.1%
Net equity	9,641.7	7,500.8	2,140.9	28.5%
a) Valuation reserves	20.1	(25.7)	45.8	n.m.
d) Reserves	146.6	307.4	(160.8)	-52.3%
f) Share capital	7,453.5	7,453.5	-	-
h) Net profit (loss) for the year	2,021.5	(234.4)	2,255.9	n.m.
Total Liabilities and Shareholders' Equity	121,890.2	118,942.6	2,947.6	2.5%

* The balance sheet figures as at 31 December 2022 were restated, with respect to those published at the reference date, to reflect retroactively the corporate transactions that took place in 2023.



Customer funding

As at 31 December 2023, the Bank's **Total Funding** volumes amounted to around **EUR 176.4 bn**, up by EUR 11.3 bn compared to 31 December 2022, both on Direct funding (EUR +8.9 bn) and Indirect funding (EUR 2.4 bn).

Customer Funding				
	31 12 2023	31 12 2022	Chg Y/Y	
			Abs.	%
Direct funding	86,722.8	77,851.8	8,871.0	11.4%
Indirect funding	89,719.0	87,306.4	2,412.6	2.8%
Total funding	176,441.8	165,158.2	11,283.6	6.8%

More specifically, **Direct funding** amounted to **EUR 86.7 bn** and were up by EUR 8.9 bn compared to the end-December 2022 figures, due to greater transactions in repurchase agreements (EUR +6.6 bn) and growth in the bond component (EUR +1.5 bn), the latter following the placement of senior preferred bonds with a nominal value of EUR 750 mln and EUR 500 mln finalised in the first and third quarters of 2023 respectively, and of other forms of direct funding (EUR +1.9 bn) and current accounts. On the other hand, maturity deposits were down slightly.

Direct funding				
Type of transaction	31 12 2023	31 12 2022	Change Y/Y	
			Abs.	%
Current accounts	62,198.8	61,868.2	330.6	0.5%
Time deposits	3,942.7	4,163.0	(217.1)	-5.2%
Reverse repurchase agreements	6,565.1	559.4	6,565.1	n.m.
Bonds	10,101.0	8,608.6	1,451.3	16.8%
Other types of direct funding	3,915.2	2,652.6	1,856.1	90.1%
Total	86,722.8	77,851.8	9,986.0	13.0%

Indirect funding amounted to **EUR 89.7 bn** at the end of December, an increase of EUR 2.4 bn compared to 31 December 2022, driven by growth in assets under custody (EUR +3.6 bn), recorded on the government bonds component.

Indirect Funding				
	31 12 2023	31 12 2022	Change Y/Y	
			Abs.	%
Assets under management	51,628.8	52,861.7	(1,232.9)	-2.3%
<i>Funds</i>	23,177.3	22,446.3	731.0	3.3%
<i>Individual Portfolio under Management</i>	4,679.7	4,884.6	(204.9)	-4.2%
<i>Bancassurance</i>	23,771.8	25,530.8	(1,759.0)	-6.9%
Assets under custody	38,090.2	34,444.7	3,645.5	10.6%
<i>Government securities</i>	16,906.1	12,114.1	4,792.0	39.6%
<i>Others</i>	21,184.1	22,330.6	(1,146.5)	-5.1%
Total funding	89,719.0	87,306.4	2,412.6	2.8%



Loans to customers

As at 31 December 2023, the Bank's **Loans to Customers** amounted to **EUR 77.1 bn**, up from EUR 1.0 bn at the end of December 2022. The increase in repurchase agreements (EUR +2.7 bn) and the increase in other loans (EUR +1.0 bn) were in fact only partly offset by the decline recorded since the beginning of the year on mortgages (EUR -2.7 bn, penalised by the slowdown in demand and the selective approach adopted by the Bank) and on current accounts (EUR -0.1 bn).

Loans to customers				
Type of transaction	31 12 2023	31 12 2022	Change Y/Y	
			Abs.	%
Current accounts	2,721.1	2,837.8	(116.7)	-4.1%
Mortgages	50,635.3	53,326.3	(2,691.0)	-5.0%
Other forms of lending	15,759.7	14,790.7	969.0	6.6%
Repurchase agreements	6,230.0	3,482.9	2,747.1	78.9%
Non performing loans	1,742.0	1,685.7	56.3	3.3%
Total	77,088.1	76,123.4	964.7	1.3%
<i>Stage 1</i>	<i>65,673.9</i>	<i>63,291.7</i>	<i>2,382.2</i>	<i>3.8%</i>
<i>Stage 2</i>	<i>9,550.1</i>	<i>11,003.7</i>	<i>(1,453.6)</i>	<i>-13.2%</i>
<i>Stage 3</i>	<i>1,738.1</i>	<i>1,683.2</i>	<i>54.9</i>	<i>3.3%</i>
<i>Purchased or originated credit impaired financial assets</i>	<i>2.8</i>	<i>2.2</i>	<i>0.6</i>	<i>27.3%</i>
<i>Performing loans measured at fair value</i>	<i>121.1</i>	<i>140.8</i>	<i>(19.7)</i>	<i>-14.0%</i>
<i>Non-performing loans measured at fair value</i>	<i>2.1</i>	<i>1.8</i>	<i>0.3</i>	<i>16.7%</i>

Loans to customers measured at amortised cost	31 12 2023			31 12 2022			Chg. Y/Y	
	Stage 1	Stage 2	Total loans to customers measured at amortised cost	Stage 1	Stage 2	Total loans to customers measured at amortised cost	Stage 1	Stage 2
Gross exposure	65,778.1	9,916.8	79,071.9	63,377.4	11,354.8	77,937.5		
Adjustments	104.2	366.7	2,107.0	85.7	351.1	1,956.7		
Net exposure	65,673.9	9,550.1	76,964.9	63,291.7	11,003.7	75,980.8		
Coverage ratio	0.2%	3.7%	2.7%	0.0%	3.1%	2.5%	0.2%	0.6%
% on Loans to customers measured at amortised cost	85.3%	12.4%	100.0%	83.3%	14.5%	100.0%	2.0%	-2.1%



Non-performing exposures of loans to customers

The Bank's **total non-performing loans to customers** as at 31 December 2023 amounted to **EUR 3.4 bn** in terms of gross exposure, up slightly compared to 31 December 2022 (EUR +0.2 bn). In particular:

- the gross exposure in terms of bad loans, amounting to EUR 1.3 bn, was essentially slightly up compared to 31 December 2022 (EUR 1.2 bn);
- the gross unlikely-to-pay loan exposure, equal to EUR 2.0 bn, was essentially stable compared to 31 December 2022 (EUR 2.0 bn);
- the gross non-performing past due loan exposure amounted to EUR 119.8 ml, up from EUR 38.4 mln as at 31 December 2022.

As at 31 December 2023, the Bank's **net exposure in terms of Non-performing Loans to Customers** was **EUR 1.7 bn**, substantially in line with the figure as at 31 December 2022 (amounting to EUR 1.7 bn).

In the tables below, Non-performing loans to customers are represented by all cash exposures, in the form of loans to customers, regardless of the accounting portfolio to which they belong.

Loans to customers		Bad loans	Unlikely to pay	Non-performing Past due Loans	Total Non-performing loans to customers	Performing loans	Total
31 12 2023	Gross exposure	1,302.9	1,961.9	119.8	3,384.6	75,817.0	79,201.6
	Adjustments	878.6	737.5	26.5	1,642.6	470.9	2,113.5
	Net exposure	424.3	1,224.4	93.3	1,742.0	75,346.1	77,088.1
	Coverage ratio	67.4%	37.6%	22.1%	48.5%	0.6%	2.7%
	% on Loans to customers	0.6%	1.6%	0.1%	2.3%	97.7%	100.0%
31 12 2022	Gross exposure	1,221.4	1,954.5	38.4	3,214.3	74,874.5	78,088.8
	Adjustments	787.0	733.7	7.8	1,528.5	436.9	1,965.4
	Net exposure	434.4	1,220.8	30.6	1,685.8	74,437.6	76,123.4
	Coverage ratio	64.4%	37.5%	20.3%	47.6%	0.6%	2.5%
	% on Loans to customers	0.6%	1.6%	0.0%	2.2%	97.8%	100.0%



Capital adequacy

Regulatory capital and statutory requirements

Categories / Values	31 12 2023	31 12 2022	Chg. 31 12 2022	
			Abs.	%
OWN FUNDS				
Common Equity Tier 1 (CET1)	8,439.5	6,953.1	1,486.4	21.38%
Tier 1 (T1)	8,439.5	6,953.1	1,486.4	21.38%
Tier 2 (T2)	1,679.4	1,750.9	(71.5)	-4.08%
Total capital (TC)	10,118.9	8,704.0	1,414.9	16.26%
RISK-WEIGHTED ASSETS				
Credit and Counterparty Risk	35,493.2	27,328.0	8,165.2	29.88%
Credit valuation adjustment risk	398.2	161.8	236.4	n.s.
Market risks	2,121.1	54.7	2,066.4	n.s.
Operational risk	9,391.2	9,147.4	243.8	2.67%
Total risk-weighted assets	47,403.7	36,691.9	10,711.8	29.19%
CAPITAL RATIOS				
CET1 capital ratio	17.80%	18.95%	-1.15%	
Tier1 capital ratio	17.80%	18.95%	-1.15%	
Total capital ratio	21.35%	23.72%	-2.37%	



Prospects and outlook on operations

Please refer to the corresponding section of the Consolidated Report on Operations, the contents of which are also valid for the Bank.



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Balance Sheet

		(euro units)	
Assets		31 12 2023	31 12 2022
10.	Cash and cash equivalents	13,007,988,916	12,593,494,084
20.	Financial assets measured at fair value through profit or loss	6,300,041,534	968,035,139
	a) financial assets held for trading	5,933,941,697	597,640,598
	c) other financial assets mandatorily measured at fair value	366,099,837	370,394,541
30.	Financial assets measured at fair value through other comprehensive income	2,451,954,593	4,133,358,892
40.	Financial assets measured at amortised cost	91,248,148,670	89,007,548,907
	a) Loans to banks	4,221,984,363	18,081,015,784
	b) Loans to customers	87,026,164,307	70,926,533,123
50.	Hedging derivatives	662,012,003	996,144,071
60.	Change in value macro-hedged financial assets (+/-)	(509,161,267)	(820,758,339)
70.	Equity investments	764,873,213	2,361,518,061
80.	Property, plant and equipment	2,140,537,678	2,234,042,362
90.	Intangible assets	156,248,000	139,623,361
100.	Tax assets	2,140,027,418	1,716,898,167
	a) <i>current</i>	308,367,948	442,712,587
	b) <i>deferred</i>	1,831,659,470	1,274,185,580
110.	Non-current assets held for sale and disposal groups	76,231,919	65,497,194
120.	Other assets	3,451,279,157	2,201,400,347
	Total assets	121,890,181,834	115,596,802,246

*below:* Balance Sheet

(euro units)

Total Liabilities and Shareholders' Equity		31 12 2023	31 12 2022
10.	Financial liabilities measured at amortised cost	104,702,026,311	102,822,301,122
	a) due to banks	18,090,517,037	26,209,847,021
	b) due to customers	76,485,490,449	68,079,875,831
	c) debts securities issued	10,126,018,825	8,532,578,271
20.	Financial liabilities held for trading	2,905,740,318	581,275,752
30.	Financial liabilities designated at fair value	111,325,216	124,289,114
40.	Hedging derivatives	321,090,184	301,490,822
50.	Change in value of macro-hedged financial liabilities (+/-)	(16,080,698)	(77,362,561)
60.	Tax liabilities	4,486	5,209
	a) current	4,486	5,209
80.	Other liabilities	3,190,195,976	3,240,022,668
90.	Provision for employees severance pay	68,936,172	66,237,679
100.	Provisions for risks and charges:	965,286,162	1,446,429,299
	a) financial guarantees and other commitments	153,459,660	139,989,357
	b) post-employment benefits	3,380,665	23,515,575
	c) other provisions	808,445,837	1,282,924,367
110.	Valuation reserves	20,069,492	(4,150,149)
140.	Reserves	146,612,410	(221,405,587)
160.	Share capital	7,453,450,788	7,453,450,788
180.	Profit (loss) (+/-) for the year	2,021,525,017	(135,781,910)
Total Liabilities and Shareholders' Equity		121,890,181,834	115,596,802,246



Income statement

(euro units)

Items	31 12 2023	31 12 2022
10. Interest income and similar revenues	4,308,263,936	1,923,743,157
<i>of which interest income calculated applying the effective interest rate method</i>	<i>3,616,814,053</i>	<i>1,719,532,142</i>
20. Interest expense and similar charges	(2,212,246,492)	(651,970,462)
30. Net interest income	2,096,017,444	1,271,772,695
40. Fee and commission income	1,463,121,889	1,429,249,350
50. Fee and commission expense	(170,866,745)	(138,992,134)
60. Net fee and commission income	1,292,255,144	1,290,257,216
70. Dividends and similar income	143,017,534	128,697,784
80. Net profit (loss) from trading	54,690,743	(429,457)
90. Net profit (loss) from hedging	(4,611,335)	6,418,829
100. Gains/(losses) on disposal/repurchase of:	13,414,927	27,627,249
a) financial assets measured at amortised cost	12,558,017	26,381,598
b) Financial assets measured at fair value through other comprehensive income	1,034,167	1,233,427
c) financial liabilities	(177,257)	12,224
110. Net profit (loss) from financial assets and liabilities measured at fair value through profit or loss	5,752,982	49,080,691
a) financial assets and liabilities measured at fair value	(3,121,464)	33,932,057
b) other financial assets mandatorily at fair value through profit or loss	8,874,446	15,148,634
120. Net interest and other banking income	3,600,537,439	2,773,425,007
130. Net impairment (losses)/reversals on	(384,673,036)	(353,019,898)
a) financial assets measured at amortised cost	(385,255,508)	(352,931,132)
b) financial assets measured at fair value through other comprehensive income	582,472	(88,766)
140. Modification gains/(losses)	(6,780,660)	3,286,430
150. Net income from banking activities	3,209,083,743	2,423,691,539
160. Administrative expenses:	(1,997,309,777)	(3,101,737,317)
a) personnel expenses	(1,161,955,752)	(2,229,869,631)
b) other administrative expenses	(835,354,025)	(871,867,686)
170. Net provision for risks and charges:	454,223,439	30,151,784
a) commitments and guarantees issued	(14,984,156)	(2,386,258)
b) other net provisions	469,207,595	32,538,042
180. Net adjustments to/recoveries on property, plant and equipment	(99,928,082)	(108,783,006)
190. Net adjustments to/recoveries on intangible assets	(60,907,428)	(62,020,312)
200. Other operating expenses/income	208,958,040	258,570,300
210. Operating expenses	(1,494,963,808)	(2,983,818,551)
220. Gains (losses) on investments	(8,577,666)	802,550
230. Valuation differences on property, plant and equipment and intangible assets measured at fair value	(52,360,666)	(28,107,648)
250. Gains (losses) on disposal of investments	76,907	331,518
260. Profit (loss) before tax from continuing operations	1,653,258,510	(587,100,592)
270. Tax (expense)/recovery on income from continuing operations	368,266,507	451,318,682
280. Profit (loss) after tax from continuing operations	2,021,525,017	(135,781,910)
300. Profit (loss) for the year	2,021,525,017	(135,781,910)



Statement of comprehensive income

(euro units)		
Items	31 12 2023	31 12 2022
10. Profit (loss) for the year	2,021,525,017	(135,781,910)
Other comprehensive income after tax not recycled to profit or loss	(23,832,195)	(15,178,138)
20. Equity instruments measured at fair value through other comprehensive income	(3,257,114)	2,310,501
30. Financial liabilities designated at fair value through profit or loss (change in the entity's own credit risk)	(2,760,578)	(5,044,628)
50. Property, plant and equipment	(19,842,746)	(22,056,284)
70. Defined benefit plans	4,443,509	9,606,306
80. Non-current assets held for sale and disposal groups	(2,415,266)	5,967
Other comprehensive income after tax recycled to profit or loss	69,512,031	(157,367,995)
110. Exchange differences	(1,024,812)	688,205
120. Cash flow hedges	(5,060,959)	(5,960,118)
140. Financial assets (other than equity securities) measured at fair value through other comprehensive income	75,597,802	(152,096,082)
170. Total other comprehensive income after tax	45,679,836	(172,546,133)
180. Total comprehensive income (Item 10+170)	2,067,204,853	(308,328,043)



Statement of changes in equity – 2023

	Balance as at 31 12 2022	Change in opening balance	Balance as at 01 01 2023	Allocation of profit from prior year		Changes during the year										Total comprehensive income as at 31 12 2023	Total Equity as at 31 12 2023
				Reserves	Dividends and other payout	Change in reserves	Shareolders' equity transactions										
							Issue of new shares	Purchase of treasury shares/propric	Extraordinary distribution of	Change in equity instruments	Treasury shares derivateazioni	Stock options	Changes in equity investments				
Share capital:	7,453,450,788	-	7,453,450,788	-	-	-	-	-	-	-	-	-	-	-	-	7,453,450,788	
a) ordinary shares	7,453,450,788	-	7,453,450,788	-	-	-	-	-	-	-	-	-	-	-	-	7,453,450,788	
b) other shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Share premium	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Reserves	(221,405,587)	-	(221,405,587)	(135,781,910)	-	506,429,040	(2,629,133)	-	-	-	-	-	-	-	-	146,612,410	
a) from profits	(98,919,064)	-	(98,919,064)	(135,781,910)	-	8,102,745	-	-	-	-	-	-	-	-	-	(226,598,229)	
b) other	(122,486,523)	-	(122,486,523)	-	-	498,326,295	(2,629,133)	-	-	-	-	-	-	-	-	373,210,639	
Valuation reserves	(4,150,149)	-	(4,150,149)	-	-	(21,460,195)	-	-	-	-	-	-	-	-	45,679,836	20,069,492	
Equity instruments	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Treasury shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Profit (loss)	(135,781,910)	-	(135,781,910)	135,781,910	-	-	-	-	-	-	-	-	-	-	2,021,525,017	2,021,525,017	
Total Equity	7,092,113,142	-	7,092,113,142	-	-	484,968,845	(2,629,133)	-	-	-	-	-	-	-	2,067,204,853	9,641,657,707	

As at 31 December 2023, the Bank's shareholders' equity amounted to EUR 9,641.7 mln compared to EUR 7,092.1 mln as at 31 December 2022, an overall net increase of EUR 2,549.5 mln. The most significant phenomena impacting the net equity, in addition to the EUR 2,021.5 mln profit for the year, were the following.

On 24 April 2023 and 29 May 2023, the mergers by incorporation into the Bank of the two wholly-owned subsidiaries, MPS Leasing & Factoring S.p.A. and MPS Capital Services Banca per le Imprese S.p.A., were finalised, with accounting and tax effects backdated to 1 January 2023. The transactions resulted in a surplus of EUR 551.1 mln and a deficit of EUR 52.8 mln, respectively, which are shown in the column "Changes in reserve", line "Reserves-other".

Lastly, it should be noted that the valuation reserves show an overall net increase of EUR 24.2 mln, of which EUR 21.5 mln as a negative change in reserves recognised for the aforementioned mergers and EUR 45.7 mln as overall positive profitability of year.



Statement of changes in equity – 2022

	Balance as at 31 12 2021	Change in opening balance	Balance as at 01 01 2022	Allocation of profit from prior year		Changes during the year									Total comprehensive income as at 31 12 2022	Total Equity as at 31 12 2022
				Reserves	Dividends and other payout	Change in reserves	Shareholders' equity transactions									
							Issue of new shares	Purchase of treasury shares	Extraordinary distribution of dividends	Change in equity instruments	Treasury shares derivatives	Stock options	Changes in equity investments			
Share capital:	9,195,012,197	-	9,195,012,197	-	-	(4,240,892,704)	2,499,331,296	-	-	-	-	-	-	-	7,453,450,788	
a) ordinary shares	9,195,012,197	-	9,195,012,197	-	-	(4,240,892,704)	2,499,331,296	-	-	-	-	-	-	-	7,453,450,788	
b) other shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Share premium	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Reserves	(4,487,801,125)	-	(4,487,801,125)	151,005,319	-	4,240,761,445	(125,371,226)	-	-	-	-	-	-	-	(221,405,587)	
a) from profits	(4,613,911,211)	-	(4,613,911,211)	151,005,319	-	4,363,986,829	-	-	-	-	-	-	-	-	(98,919,064)	
b) other	126,110,087	-	126,110,087	-	-	(123,225,383)	(125,371,226)	-	-	-	-	-	-	-	(122,486,523)	
Valuation reserves	168,395,984	-	168,395,984	-	-	-	-	-	-	-	-	-	-	(172,546,133)	(4,150,149)	
Equity instruments	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Treasury shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Profit (loss)	151,005,319	-	151,005,319	(151,005,319)	-	-	-	-	-	-	-	-	-	(135,781,910)	(135,781,910)	
Total Equity	5,026,612,374	-	5,026,612,374	-	-	(131,259)	2,373,960,070	-	-	-	-	-	-	(308,328,043)	7,092,113,142	

As at 31 December 2022, the Bank's shareholders' equity amounted to EUR 7,092.1 mln, compared to EUR 5,026.6 mln as at 31 December 2021, an overall net increase of EUR 2,065.5 mln. The most significant phenomena impacting the net equity, in addition to the EUR 135.8 mln loss for the year, were the following:

On 15 September 2022, the Extraordinary Shareholders' Meeting of the Bank resolved to cover the total loss, for a total amount of EUR 4,664.6 mln, reduced to EUR 4,567.6 mln due to the half-year profit of approximately EUR 97.0 mln, as follows:

- for EUR 326.7 mln through the use of available reserves;
- for the remainder of the loss, namely EUR 4,240.9 mln, the reduction in share capital, pursuant to art. 2446 of the Italian Civil Code.

After covering the losses, the share capital amounted to EUR 4,954.1 mln.

On 4 November 2022, in execution of the afore-mentioned Shareholders' Meeting resolution, the share capital increase with consideration was completed with the full subscription of the newly issued shares for a total value of EUR 2,499.3 mln, which involved in the column "Issue of new shares":

- increase in the "Share capital" item for the same amount;
- decrease in the item "Reserves - other" for EUR 125.4 mln, due to costs incurred for the transaction, net of the relative taxes.

The "Share capital" item as at 31 December 2022 amounted to EUR 7,453.5 mln as a result of the two aforementioned events. On 5 December 2022 the merger by incorporation of Consorzio Operativo Gruppo S.p.A. (formerly Consorzio Operativo di Gruppo) into Banca MPS became effective, with accounting and tax effects backdated to 1 January 2022. The transaction resulted in a merger surplus of approximately EUR 2.9 mln recognised in the column "Changes in reserve", line "Reserves - other".

Finally, valuation reserves decreased by a total of EUR 172.5 mln. Please refer to the statement of comprehensive income for details of the individual components.



Cash Flow Statement - indirect method

(euro units)

A. OPERATING ACTIVITIES	31 12 2023	31 12 2022
1. Cash flow from operations	1,840,721,202	1,438,614
Profit (loss) (+/-)	2,021,525,017	(135,781,910)
Capital gains/losses on financial assets held for trading and on assets/liabilities designated at fair value (+/-)	(119,279,418)	(2,564,291)
Net profit (loss) from hedging	4,611,335	(6,418,829)
Net impairment losses/reversals	536,304,869	437,125,366
Net adjustments/recoveries on property, plant and equipment and on intangible assets (+/-)	213,196,176	198,910,966
Net provisions for risks and charges and other costs/revenues (+/-)	(445,719,523)	(21,925,927)
Unpaid charges, tax and tax credit	(368,266,507)	(451,318,682)
Net losses/reversal on impairment on groups of assets held for sale and discontinued operations, after tax (+/-)	-	-
Other adjustments	(1,650,747)	(16,588,079)
2. Cash flow from (used in) financial assets	(2,675,304,272)	23,187,918,254
Financial assets held for trading	570,277,553	(31,578,371)
Other financial assets measured at fair value mandatory	90,060,006	12,927,662
Financial assets measured at fair value through other comprehensive income	1,949,906,584	862,490,474
Financial assets measured at amortised cost	(3,166,329,551)	22,761,496,977
Other assets	(2,119,218,864)	(417,418,488)
3. Cash flow from (used in) financial liabilities	1,222,419,225	(16,040,061,540)
Financial liabilities measured at amortised cost	2,172,389,238	(14,448,185,083)
Financial liabilities held for trading	(1,166,218,877)	64,295,130
Financial liabilities designated at fair value	7,064,796	5,375,339
Other liabilities	209,184,068	(1,661,546,926)
Net cash flow from (used in) operating activities	387,836,155	7,149,295,328
B. INVESTMENT ACTIVITIES		
1. Cash flow from	117,411,845	109,146,869
dividends collected on equity investments	116,470,764	107,359,852
sales of property, plant and equipment	941,081	1,787,017
2. Cash flow used in	(93,383,311)	(56,758,541)
purchase of equity investments	(12,224)	(325,909)
purchase of property, plant and equipment	(22,777,498)	(16,511,272)
purchase of intangible assets	(70,593,589)	(39,921,360)
Net cash flow from (used in) investment activities	24,028,534	52,388,328
C. FUNDING ACTIVITIES		
issue/purchase of treasury shares	2,630,143	2,371,349,163
Net cash flow from (used in) funding activities	2,630,143	2,371,349,163
NET CASH FLOW FROM (USED IN) OPERATING, INVESTMENT AND FUNDING ACTIVITIES DURING THE YEAR	414,494,832	9,573,032,819

**Reconciliation**

Accounts	31 12 2018	31 12 2022
Cash and cash equivalents at beginning of year	12,593,494,084	3,020,461,265
Total net cash flows generated (used) in the year	414,494,832	9,573,032,819
Cash and cash equivalents at end of the year	13,007,988,916	12,593,494,084

The information required by IAS 7 paragraph 44 A and B is shown below.

	Book value	31 12 2022	Cash flow	Non-monetary changes			31 12 2023
				Business combinations/ loss of control of companies	Changes in fair value	Other	
10.	Financial liabilities measured at amortised cost	102,822,301,122	2,172,389,238	(409,855,580)		117,191,531	104,702,026,311
20.	Financial liabilities held for trading	581,275,752	(1,166,218,877)	3,460,936,261	29,747,182	-	2,905,740,318
30.	Financial liabilities measured at fair value	124,289,114	7,064,796	(27,261,615)	7,232,922		111,325,216
	Total	103,527,865,988	1,013,235,157	3,023,819,065	36,980,104	117,191,531	107,719,091,845



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A.1 – General

Section 1 - Statement of compliance with international accounting standards

Pursuant to Italian Legislative Decree no. 38 of 28 February 2005, these financial statements were prepared in accordance with the international accounting standards 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 2023.

The application of the international accounting standards was carried out by also referring to the “Systematic Framework for the preparation and presentation of financial statements” (Conceptual Framework), the *Implementation Guidance and Basis for Conclusions* documents and any other documents prepared by the IASB or IFRIC to complete the accounting standards issued.

For an overview of the standards endorsed during 2023 or those endorsed in previous financial years, whose application is scheduled for 2023 (or future financial years), please refer to “Section 5 - Other Aspects” below, which also describes the main impacts for the Bank.

Communications of the Supervisory Bodies were also taken into account to the extent applicable (Bank of Italy, ECB, Consob and ESMA) and the interpretative documents on the application of IAS/IFRS prepared by the Organismo Italiano di Contabilità (OIC) [Italian Accounting Body], the Associazione Bancaria Italiana (ABI) [Italian Banking Association] and the Organismo Italiano di Valutazione (OIV) [Italian Evaluation Body], which provide recommendations on the information to be provided in the Financial Report, on certain aspects of greater importance in the accounting field, or on the accounting treatment of particular transactions.



Section 2 - General accounting standards

The Financial Statements consist of the balance sheet, income statement, statement of comprehensive income, statement of changes in equity, the cash flow statement and the notes to the financial statements which includes relevant information on the accounting standards applied, and are accompanied by the directors' report on operations, financial results achieved, and the Bank's equity and financial situation.

The financial statements as at 31 December 2023 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 eighth update of 17 November 2022.

The aforementioned update takes into account the new international accounting standard IFRS 17 "Insurance contracts", which replaces the previous IFRS 4 "Insurance contracts" from 1 January 2023, and subsequent amendments to other international accounting standards, including IAS 1 "Presentation of Financial Statements" and IFRS 7 "Financial Instruments: Disclosures". The amendments mainly concern the consolidated financial statements of conglomerate parent banks, mainly in the banking sector, as well as those of banks with equity investments in insurance companies consolidated for accounting purposes and which are not conglomerate parents. These changes did not have any impact on the Bank, which does not carry out insurance activities and values at cost its associates' holdings in the capital of the insurance companies AXA MPS Assicurazioni Danni S.p.A. and AXA MPS Assicurazioni Vita S.p.A.

The Bank also took into account the Bank of Italy communication of 14 March 2023 "Update of the provisions of Circular no. 262 - Bank Financial Statements: layout and rules for preparation" regarding the impacts of COVID-19 and measures to support the economy", which repeals and replaces the previous communication of 21 December 2021 relating to the COVID-19 disclosure to be provided in the financial statements. The update, due to the changed pandemic-related scenario, eliminates the financial statement disclosure relating to moratorium-backed loans while requesting, in free format, financial statement disclosure on the loans subject to public guarantee. The provisions of the communication apply to financial statements closed or pending as at 31 December 2023.

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

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

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

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

Each item in the balance sheet, income statement and statement of comprehensive income also indicates the amount for the prior financial year, unless an accounting standard or interpretation allows or provides otherwise. On 24 April 2023 and 29 May 2023, the mergers by incorporation into Banca MPS of the two wholly-owned subsidiaries, MPS Leasing & Factoring S.p.A. and of MPS Capital Services Banca per le Imprese S.p.A., were finalised, with accounting and tax effects as from 1 January 2023. In this regard, it should be noted that - in line with the provisions of Circular 262 - the balance sheet, income statement and statement of comprehensive income accounts as well as the tables in the Notes to the financial statements referring to the period under comparison (31 December 2022) were not restated to include the amounts of the two merged banks, and are therefore not immediately comparable. It should also be noted that in the tables of the Notes to the financial statements relating to the annual changes, the amounts of the merged companies – unless otherwise indicated – are included under "Other increases". In order to allow for a homogeneous comparison, in the Report on Operations accompanying these Financial Statements, the income statement and balance sheet data referring to the previous year are restated, where necessary, to retroactively reflect the effects of the corporate transactions that took place in 2023. The Annexes include the reconciliation statements between the Balance sheet and Income statement data originally published in the 2022 Financial statements and the restated Balance Sheet and Income statement data, as well as specific reconciliation statements between the latter and the reclassified statements included in the Report on Operations.



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 financial year or prior financial 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 to the financial statements, 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 financial year and the previous financial 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 or 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 net profit (loss) 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 financial year have no sign, while those absorbed are shown between brackets.

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

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

Going concern

These Financial Statements were prepared under the going concern assumption.

After assessment of the evolution of the equity and liquidity positions, with regard to the indications provided in Document no. 2 of 6 February 2009 and Document no. 4 of 3 March 2010, issued jointly by the Bank of Italy, Consob and ISVAP, and subsequent amendments, the Directors can reasonably expect that the Bank will continue operating as a going concern in the foreseeable future and therefore consider it appropriate to use the going concern assumption in the preparation of these financial statements.



Section 3 – Events after the Reporting Date

The significant events that occurred in the period between the reporting date (31 December 2023) and the date of approval of the financial statements by the Board of Directors (29 February 2023), entirely attributable to non-adjusting events, pursuant to IAS 10, i.e. events that do not entail any adjustments to the financial statements, as they are the expression of situations arising after the reporting date.

Liquidation of investee companies

On 9 January 2024, the company Siena Lease 2016-2 Srl in liquidation was cancelled from the competent Companies' Register, to complete the liquidation procedure. This transaction had no effect on the Bank's financial position and Income Statement as at 31 December 2023.



Section 4 – Other Matters

Interest rate benchmark reform

The so-called “IBOR reform” follows the recommendations of the Financial Stability Board (FSB) following the request of the G20 to carry out a radical revision of the main interest rate benchmarks. The request is a direct consequence of the loss of reliability of some existing benchmark rates following their alleged manipulation, corroborated by the scarcity of liquidity in the interbank markets in the period following the economic crisis. The reform process is based at EU level on Regulation (EU) 2016/1011 of 8 June 2016 (so-called “Benchmarks Regulation” or “BMR”), which entered into force on 30 June 2016, applicable from 1 January 2018 and amended in 2021. The Benchmarks Regulation has introduced in the EU a new regulatory framework on benchmark interest rates, i.e. indexes in reference to which the amount to be paid for a financial instrument or a financial contract is determined.

To respond to the requirements of the BMR Regulation, the Monte dei Paschi Group launched an assessment project in 2020, from which it emerged that the impact of the reform was of low significance in the following areas: products, contracts, models and information systems.

With reference to OTC derivatives and in line with practices at most financial market operators, at the beginning of this year, the Bank and the former subsidiary MPS Capital Services Banca per le Imprese S.p.A. have approved the adoption of the ISDA 2020 *IBOR Fallback Protocol* and the ISDA 2021 *EONIA Collateral Agreement Fallbacks Protocol*. These protocols were created to allow the parties to massively modify the contractual terms of existing transactions, incorporating the alternative rates (fallbacks).

During the first half of 2023, the project activities relating to the discontinuation of the publication of the USD Libor were completed, initiating intense negotiations with the counterparties in order to facilitate the definitive transition to the replacement index “Term SOFR” recorded by the CME Group, and adopted in line with the recommendations formulated by the ARRC (The Alternative Reference Rates Committee). As at 31 December 2023, there aren’t financial instruments that must switch to an alternative reference rate, except for a non-material cluster of customer accounts.

With regard to the issue of clauses relating to the substitute rate in contracts, Italian Legislative Decree no. 207, published in the Official Gazette on 27 December 2023, with entry into force on 11 January 2024, introduced art. 118-bis in the TUB, extending the possibility of unilaterally changing rates to forward contracts (regulated by Title VI of the TUB), as is already the case for open-ended contracts, in the event of change or termination. In this way, the Bank will be able to apply massively to all banking products the changes necessary to update the substitute rate, without having to resort to individual negotiations. The necessary activities are currently underway to update the contracts of banking products aimed at introducing clauses which, in the event of a substantial change or termination of the reference index applied to the contract, make it possible to identify changes to the reference index or the replacement index, also for reference to the internal plan adopted by the bank in case of change or termination of reference rates pursuant to EU Regulation 2016/1011

The ESEF (European Single Electronic Format) for the preparation of annual financial reports

The Delegated Regulation (EU) no. 2019/815 (so-called ESEF Regulation) issued in order to implement the Transparency Directive no. 2004/109/EC, establishes that issuers whose securities are listed on regulated markets in the European Union must prepare annual financial reports in accordance to the ESEF single electronic reporting format approved by ESMA, which is a combination of XHTML for the presentation of financial reports in a human-readable format and the machine readable XBRL (Extensible Business Reporting Language) markup to facilitate the accessibility, analysis and comparability of consolidated financial statements prepared in accordance with IFRS.

The use of this new format assumes the mapping of the information contained only in the consolidated financial statements (balance sheet, income statement, statement of comprehensive income, statement of changes in equity and cash flow statement) and in the Notes to the consolidated financial statements according to the specifications “Inline XBRL” contained in the basic taxonomy issued by ESMA. Taking into account that the Annual financial report also includes the Parent Company’s financial statements, the entire document is prepared in XHTML format.

The Annual Financial Report, prepared in compliance with the provisions of the ESEF Regulation, was approved by the Board of Directors of Banca MPS on 29 February 2023 and will be made public within the terms of the law.



For further information, please refer to the same paragraph contained in “Part A Accounting Policies - A.1 General Part” of the Notes to the consolidated financial statements.

An illustration of the new accounting standards, or the changes to existing standards approved by the IASB is provided below, as well as the new interpretations or changes to existing interpretations published by IFRIC, with separate reporting on those applicable in 2023 from those that may be adopted in subsequent financial years.

ESMA Priorities

In October 2023, ESMA published the *Public Statement European common enforcement priorities for 2023 annual financial reports* in which it highlights what are considered to be the thematic areas of particular relevance for the 2023 financial reporting.

The Authority, in its general recommendations, draws attention to the disclosure of recently or soon to be implemented accounting standards. In particular, for the year 2023, particular attention is paid to the disclosure relating to the introduction i) of the accounting standard IFRS 17 “Insurance Contracts”, for which reference is made to the following paragraph “IFRS 17 Insurance contracts Adoption of accounting standards” “IFRS 17 Insurance Contracts” and “IFRS 9 Financial Instruments” in the companies AXA MPS Assicurazioni Vita and AXA MPS Assicurazioni Danni”, and ii) amendment to IAS 12 “International Tax Reform Pillar Two Model Rules”, for which reference is made to the paragraph “Pillar 2 - Global Minimum Tax” included in the section “The Group’s tax position” in the Consolidated Report on Operations.

As regards the enforcement priorities for the 2023 Financial Statements, these mainly concern issues related to i) the macroeconomic context and ii) climate/environmental factors.

Among the issues related to the macroeconomic context, particular emphasis is placed on the need to provide extensive disclosure on the impacts that the current macroeconomic context, characterised by rising interest rates and high inflation, could have: i) on financial risks, in particular on interest rate risk and liquidity risk, to which the entities are exposed and on hedge accounting requirements; ii) on the fair value of assets, financial and otherwise, as these values may not correctly reflect current market conditions.

For an analysis of the strategic management of interest rate risk in the current macroeconomic context and the relative sensitivity analyses, please refer to what is set forth in Part E - Information on risks and hedging policies of the Notes to the Consolidated financial statements in the section “1.2.2 Interest rate and price risk” in the paragraphs “Qualitative Information - A.1 Interest rate risk” and “Quantitative Information – 2.1 Interest rate risk”, respectively.

For aspects concerning liquidity risk, please refer to the Part of E - Information on risks and hedging policies of the Notes to the Consolidated financial statements in section “4 Liquidity risk” respectively i) in the paragraph “Qualitative information – Liquidity risk: general aspects, operational processes and measurement methods” for disclosure on the Group’s liquidity risk management strategies and concentration risk; ii) in the paragraph “Quantitative information - Breakdown of financial assets and liabilities by residual contractual duration” for a quantitative analysis of the exposure to liquidity risk.

With regard to information on assets pledged as collateral for own liabilities and commitments, please refer to the related table in Part B - Information on the balance sheet – section Other informations”, on Quantitative Information as well as Part E - Information on risks and hedging policies in the Notes to The Consolidated financial statements, section 2 “Risks of prudential consolidation” and in paragraph D “Covered bond transactions”.

Finally, with regard to the refinancing risk to which its counterparties may be exposed, in particular for counterparties operating in commercial real estate sectors, please refer to “Part E - Information on risks and hedging policies” of the Notes to the Consolidated financial statements, section 2 – Risks of prudential consolidation, 1.1 Credit risk, paragraph 2.3 Methods to measure expected losses” and to the paragraph “Management overlays”.

Please refer to section A.4 – Information on fair value of Part A Accounting policies for information on the determination of the fair value of real estate assets and financial assets.

With regard to information relating to climate/environmental factors, ESMA reiterated, in addition to the need to provide consistent disclosure between what is reported in the Financial statements and in the Non-financial statement, the importance of an adequate assessment of the related risks to climate change and an appropriate description of them in the financial statements if these risks are material. For details, please refer to Part E – Information on risks and hedging policies of the Notes to Consolidated financial statements, paragraph “ESG Risks”.



In line with ESMA requirements, the Group has also paid particular attention to the assessment of the possible impacts that climatic/environmental factors may have had on its estimates and assumptions, with particular regard to:

- 1) the quantification of impairment losses on receivables, for which reference is made to Part A - Accounting Policies, paragraph “Incorporation of climate and environmental risks in the determination of expected losses” and to Part E - Information on risks and hedging policies, section 2 – Risks of prudential consolidation, 1.1 Credit risk, paragraph 2.3 Methods for measuring expected losses,
- 2) the quantification of the fair value of investment property and operating properties, for which reference is made to Part A - Accounting policies, paragraph “Determination of the fair value of properties”;
- 3) the assessment of the fairness of the value of equity investments and other non-financial assets Part A - Accounting policies, paragraph “Methods for calculating impairment on equity investments”.

Finally, ESMA requires disclosure regarding the offer of green financing products and the purchase of certifications for renewable energy. For an analysis of these aspects, please refer to Part E- Information on risks and hedging policies – of the Notes to Consolidated financial statements, paragraph “ESG Risks”.

List of key IAS/IFRS international accounting standards and related SIC/IFRIC interpretations endorsed for mandatory application as of the 2023 Financial Statements

The accounting standard IFRS 17 “**Insurance Contracts**”, published by the IASB in May 2017 and subject to subsequent amendments published on 25 June 2020 and on 9 December 2021, was endorsed with EU Regulation no. 2036/2021 of 19 November 2021 – and more recently amended with Regulation no. 1491/2022 of 8 September 2022, which introduced some changes of limited scope for the preparation of comparative information for the first-time application of IFRS 17 and IFRS 9 – entered into force on 1 January 2023.

Regulation no. 2022/1491 of 8 September 2022, as noted above, endorsed the amendment to IFRS 17 “**Insurance Contracts: Initial Application of IFRS 17 and IFRS 9 - Comparative Information**”, published by the IASB on 9 December 2021. This amendment changes the rules for the transition to IFRS 17 for entities that at the same time apply the transition to IFRS 9, taking into account the different requirements envisaged by the aforementioned accounting standards for the restatement of comparative balances; in fact, IFRS 17 requires the restatement of comparative information, which is permitted but not required by IFRS 9. On the basis of the amendment in question, the entity is allowed to present comparative information on financial assets as if the IFRS 9 classification and measurement requirements had been applied; this option is applicable to individual financial instruments and does not require the adoption of impairment criteria established by IFRS 9. The amendments are applicable from 1 January 2023.

The Bank does not carry out insurance activities or provide insurance services/product under the scope of IFRS 17, therefore, the aforementioned regulation did not have any impact on the financial statements and balance sheet.

Regulation no. 2022/357 of 2 March 2022 endorsed the amendment to IAS 1 “**Disclosure of Accounting Policies (Amendments to IAS 1 “Presentation of Financial Statements” and IFRS Practice Statement 2 “Making Materiality Judgements”)**” and the amendment to IAS 8 “**Definition of Accounting Estimates (Amendments to IAS 8)**”, both published by the IASB on 12 February 2021. These amendments clarify the differences between accounting standards and accounting estimates in order to ensure the consistent application of accounting standards and the comparability of financial statements. With reference to IAS 1, the IASB introduced amendments with the aim of developing guidelines and examples in the application of assessments of relevance and materiality to disclosures on accounting standards. In particular, information on accounting standards is material if, considered together with other information included in the entity’s financial statements, it is reasonable to expect that it will affect the decisions of the users of the financial statements. With regard to the amendments to IAS 8, the IASB introduced the definition of accounting estimate. Accounting estimates are to be understood as “monetary amounts in the financial statements subject to valuation uncertainty”. The amendments to both standards are effective for financial years starting on or after 1 January 2023, with early application permitted. No significant impacts for the Bank were derived from the aforementioned amendments, although it may constitute a useful reference for analyses and for improving financial statement disclosure.

The Regulation (EU) 2022/1392 of 11 August 2022 endorsed the amendment to IAS 12 “**Deferred Tax related to Assets and Liabilities arising from a Single Transaction**” (Amendments to IAS 12), published by the IASB on 7 May 2021, which specifies how companies should account for deferred tax on transactions such as leases and decommissioning obligations. With the amendments in question, it was specified that the exemption from the recognition of a deferred tax liability or asset does not apply in the event of the initial recognition of an asset or a



liability in a transaction that gives rise to deductible temporary differences and equal taxable income, even if at the time of the transaction it does not affect either the accounting profit or the taxable income/tax loss. The amendments apply as of 1 January 2023, but early adoption is permitted. The amendment had no impact for the Bank.

Regulation (EU) 2023/2468 of 8 November 2023 endorsed the amendment to IAS 12 “**Income taxes: International Tax Reform – Pillar Two Model Rules**” (Amendments to IAS 12) published by the IASB on 23 May 2023. This amendment is the result of the publication by the OECD, in December 2021, of a number of rules agreed upon at international level (by more than 135 countries representing over 90% of global GDP) aimed at resolving the tax problems deriving from digitalisation of the economy, through which a two-pillar model (so-called Pillar One and Two) was introduced. In detail, the Pillar Two rules aim to limit tax competition by introducing a minimum global rate of 15% in each jurisdiction in which large multinationals operate. As a general rule, the Bank will be required to pay any top-up tax for subsidiaries operating in low-tax jurisdictions and for which the current tax is below the 15% minimum threshold. The additional tax will be paid in the jurisdiction of the Bank. Given the concerns that had arisen on the accounting of deferred taxes related to the top-up tax, the amendment introduced: (i) a temporary exception to the accounting of deferred taxes related to the application of the new “Pillar Two” provisions and (ii) disclosure requirements before and after the entry into force of the regulations. The temporary exception applies immediately and retroactively in accordance with IAS 8 “**Accounting policies, changes in accounting estimates and errors**”. Additional information is required for financial years beginning on or after 1 January 2023. The Bank has applied the exception to the recognition and disclosure of deferred tax assets and liabilities relating to Pillar 2 income taxes.

For more information on the effect of Pillar 2 legislation on the Bank and the main jurisdiction in which Pillar 2 exposures may exist, please refer to the paragraph “Pillar 2 – Global minimum tax” included in the section “Group tax position” within the Consolidated report on operations.

List of endorsed IAS/IFRS international accounting standards and related SIC/IFRIC endorsed interpretations whose application is mandatory after 31 December 2023

The standards or amendments whose application is effective after 31 December 2023 and for which the Bank, where envisaged, did not make use of early application, is provided below.

Regulation (EU) 2023/2579 of 20 November 2023 endorsed the amendment to IFRS 16 “**Leases: lease liability in sale and leaseback**” (amendment to IFRS 16) issued by the IASB on 22 September 2022. The amendment clarifies how a sale and leaseback transaction is accounted for after the transaction date. The above amendments are in addition to the sale and leaseback requirements of IFRS 16, thus supporting the consistent application of the accounting standard. The amendments will be effective for financial years starting on or after 1 January 2024, with early application permitted.

Regulation (EU) 2023/2822 of 19 December 2023 endorsed the amendments to IAS 1 presented by the IASB on 23 January 2020 “**Classification of Liabilities as Current or Non-Current Date**” and on 31 October 2022 “**Non-current Liabilities with Covenants**”, with the aim of clarifying the way in which a company must determine, in the statement of financial position, the debt and other liabilities with uncertain settlement date. Based on these amendments, the debt or other liabilities must be classified as current (with actual or potential extinction date within one year) or non-current. The related application, initially scheduled for the financial year 2022, was first deferred to 1 January 2023, with the amendments approved by the IASB on 15 July 2020, and finally postponed to 1 January 2024, with the amendments issued on 31 October 2022. This last amendment requires that only the covenants that an entity must comply with at the reporting date or before that date are such as to affect the classification of a liability as current or non-current. It is also required to indicate in the Notes to the financial statements the information that allows users of the financial statements to understand the risk that non-current liabilities with covenants may become repayable within twelve months.

The aforementioned changes are not expected to have a significant impact on the Bank’s financial position.

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

On 25 May 2023, the IASB published the amendment to IAS 7 “Statement of Cash Flows” and IFRS 7 “Financial Instruments: disclosures: supplier finance arrangements”. The amendments introduce new disclosure requirements relating to the financial agreements in place with suppliers. In particular, the following details are required:

- the terms and conditions of each reverse factoring arrangement;



- for each reverse factoring arrangement, at the start and end dates of the period:
 - the book value of financial liabilities recorded in the financial statements and the item in which these financial liabilities are presented in the statement of financial position;
 - the book value of financial liabilities for which suppliers have already received payment from the lenders;
 - the deferred payments period for reverse factoring liabilities;
- the deferred payments period for trade payables that are not part of a reverse factoring arrangement.

Lastly, the IASB published on 15 August 2023 the amendment to IAS 21 “***The effects of changes in foreign exchange rates: lack of exchangeability***”. The amendment clarifies when a currency is convertible into another currency, how to estimate the exchange rate if the currency is not convertible and the information to be provided in the Notes to the financial statements. The amendment will become effective on 1 January 2025, but early adoption is permitted. The amendments will be effective for financial years starting on or after 1 January 2024.

The aforementioned changes are not expected to have a significant impact on the Bank’s financial position.



A.2 – Part relating to the main items of the financial statements

Accounting standards

The following is a description of the accounting standards that have been adopted with reference to the main asset and liability items for the preparation of the financial statements as at 31 December 2023 with reference to the stages of classification, recognition, measurement and derecognition of the various asset and liability items, as well as for the methods of recognising revenues and costs. These standards are aligned with those adopted for the preparation of the comparative financial statements as at 31 December 2022.

1 Financial assets measured at fair value through profit or 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 item in particular includes:

- debt securities or loans that are included in an “Other” Business Model, i.e., a procedure for managing financial assets that does not have the objective of collecting contractual cash flows (“Held to Collect” business model) or collecting contractual cash flows and selling financial assets (“Held to Collect and Sell” business model);
- debt securities, loans and units of UCITS whose contractual terms do not exclusively provide for repayments of principal and interest on the amount of principal to be repaid (i.e., that do not pass the so-called Solely Payment of Principal and Interest (SPPI) test);
- equity instruments that cannot be classified as representing control, affiliation, and joint control, held for trading purposes or for which, upon initial recognition, the fair value through other comprehensive income option was not chosen;
- derivative contracts, recognised in financial assets held for trading, which 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 - including in the case of derivative contracts allocated to the trading portfolio and hedging derivative contracts, as required by Circular 262 - only if the legal right to offset the amounts recognised is currently in place and the entity intends to proceed with the net settlement of offsetting positions. More detailed information is provided below on the three sub-items that comprise this category, represented by: “Financial assets held for trading”, “Financial assets measured at fair value”, and “Other financial assets mandatorily measured at fair value”.

Financial assets held for trading

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

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

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

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



Financial assets designated at fair value

A financial asset (debt securities and loans) can be designated at fair value irrevocably at the time of initial recognition, only when this designation makes it possible to eliminate or significantly reduce a measurement inconsistency ("accounting mismatch"). This category is not used by the Bank at present.

Other financial assets mandatorily measured at fair value

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

- debt securities and loans, when: i) the relative contractual cash flows do not represent solely payments of principal and interest on the residual principal (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);
- UCITS units;
- equity securities held for purposes other than trading for which the option of classification at fair value through other comprehensive income is not exercised.

b) recognition criteria

Initial recognition of financial assets occurs at settlement date for debt securities, equities and units of UCITS, at disbursement date for loans, and at trade date for derivative contracts. Upon initial recognition, financial assets measured at fair value through profit or 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 or loss are recorded at fair value, with changes recognised as an offsetting entry in the income statement.

To determine the fair value of financial instruments listed on an active market, market prices recorded at the reporting date are used. In the absence of an active market, commonly adopted estimation methods and valuation models are used, which take into account all the risk factors related to the instruments and which are based on data recorded on the market such as: valuation of listed securities with similar characteristics, discounted cash flow calculations, option pricing models, values recognised 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 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 further information on the criteria for determining the fair value, please refer to Section "A.4 Information on Fair Value" of Part A of these Notes to the financial statements.

d) revenue recognition criteria

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

Realised gains and losses, the gains and losses from measurements for "Financial assets held for trading", including derivatives associated with financial assets/liabilities measured at fair value, are booked to the income statement under item "80 - Net trading income (expenses)". These income effects pertaining to "Financial assets measured at fair value" as well as "Other financial assets mandatorily measured at fair value" are booked to the income statement under item "110 - Net profit (loss) from other financial assets and liabilities measured at fair value through profit or loss", in the sub-items "a) financial assets and liabilities measured at fair value" and "b) other financial assets mandatorily measured at fair value", respectively.

e) derecognition criteria

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

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. Conversely, if such control has been maintained, even partly, the



assets should continue to be recognised to the extent of residual involvement, as measured by the exposure to the changes in value of the assets disposed and to the changes in their cash flows.

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

f) reclassification criteria

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

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

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

a) classification criteria

This category includes financial assets represented by:

- debt securities, managed as part of a "Held to collect and sell" business model and whose contractual flows represent only payments of principal and interest on the residual capital (SPPI test passed);
- equity instruments (not qualifiable as control, association and joint control), held as part of a Business Model other than trading for which the option for recognition in the individual instrument was irrevocably exercised at the time of initial recognition of the individual instrument, the option for recognition in the statement of comprehensive income from changes in fair value after initial recognition (OCI election).

b) recognition criteria

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

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

c) measurement criteria

Financial instruments represented by debt securities and loans, following initial recognition, continue to be measured at fair value, with recognition in the income statement of interest (based on the effective interest rate method), expected credit losses, and any exchange rate effect. Fair value changes, net of expected credit losses, are booked to the appropriate equity reserve net of the associated tax effect (item "110 - Valuation reserves"). Upon cancellation of the financial asset, the accumulated profits or losses in the valuation reserve will be subject to recycling to the Income Statement (item "100. Gains (losses) on disposal or repurchase of: b) financial assets measured at fair value through other comprehensive income").

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 amounts recognised in this reserve will never be transferred to the income statement, even in the event of a sale; in this case, a reclassification is made to 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 received (item "70 - Dividends and similar income").

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

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

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

d) revenue recognition criteria

As regards financial instruments represented by debt instruments:

- interest is recorded under item “10 - Interest income and similar revenues”;
- expected credit losses recognised in the financial year are accounted for in item “130 - “Net impairment (losses)/reversals for credit risk of: b) financial assets measured at fair value through comprehensive income” as a balancing entry to the specific equity valuation reserve (“110. Valuation reserves”); the same applies to recoveries of part or all of the write-downs made in previous financial years;
- at the moment of derecognition, valuations accumulated in the specific equity reserve are reversed to the income statement under item “100 - Gains (losses) on disposal/repurchase of: b) financial assets measured at fair value through other comprehensive income”.

As regards financial assets represented by equity instruments, for which the so-called “OCI election” was exercised, only dividends are booked to the income statement (item “70 - Dividends and similar income”).

e) derecognition criteria

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

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. Conversely, if such control has been maintained, even partly, the assets should continue to be recognised to the extent of residual involvement, as measured by the exposure to the changes in value of the assets disposed and to the changes in their cash flows.

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

f) reclassification criteria

According to the general rules established by IFRS 9 on reclassifying financial assets (with the exception of equity securities, for which reclassification is not permitted), reclassifications to other categories of financial assets are not permitted unless the entity changes its Business Model for managing financial assets. In these cases, which are expected to be highly infrequent, financial assets may be reclassified from the category ‘measured at fair value through other comprehensive income’ to one of the other two categories envisaged by IFRS 9 (financial assets measured at amortised cost or financial assets measured at fair value through profit or 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 or loss category,



the cumulative gain (loss) recorded previously in the valuation reserve is reclassified from shareholders' equity to profit (loss) for the year.

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

3 Financial assets measured at amortised cost

a) classification criteria

Included in this category are financial assets represented by loans and debt securities held according to a business model whose objective is achieved through the collection of contractually stipulated cash flows (business model "Held to collect") and whose contractual flows represent only principal and interest payments on the principal to be repaid (SPPI test passed).

The portfolio of financial assets measured at amortised cost includes:

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

b) recognition criteria

Financial assets are initially recognised on the date of settlement, with reference to debt securities, and on the date of disbursement, with reference to loans. In particular, as far as loans are concerned, the disbursement date normally coincides with the contract execution date. If this coincidence does not occur, at the time of the contract execution, a commitment to disburse funds is recorded, which closes on the date of disbursement of the loan. The initial recognition is based on the fair value of the financial instrument (which is normally equal to the amount disbursed or price of underwriting), inclusive of the costs/income directly related to the individual instruments and determinable as of the transaction date, even if such costs/income are settled at a later date. This does not include costs which have these characteristics but are subject to repayment by the debtor or which can be encompassed in ordinary internal administrative expenses.

Repurchase agreements with forward repurchase or resale obligation are recorded in the financial statements as funding or lending transactions. In particular, spot sales and forward repurchase transactions are recognised in the financial statements as payables for the spot amount received, while spot purchase and forward resale transactions are recognised as receivables for the spot amount paid.

c) measurement criteria and revenue recognition criteria

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

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

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

The effective interest rate is identified by calculating the rate that equals the present value of future flows of the asset, in terms of principal and interest, to the amount disbursed including the costs/income related to the asset. The estimate of cash flows must take into account all contractual clauses that may affect amounts and maturities, without considering the expected losses on the asset. This accounting method, using a financial logic, makes it possible to distribute the economic effect of all transaction costs, commissions, premiums or discounts considered an integral part of the effective interest rate over the expected residual life of the asset. The amortised cost method is not used for short-term receivables, for which the effect of applying a discounting approach is negligible, for loans without a defined maturity, and for revocation loans. For more details on amortised cost, please refer to the paragraph "amortised cost" included in the paragraph "Other significant accounting practices" below.



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”. If there is no reasonable expectation of recovery, the gross exposure is written-off: in this case, the gross exposure will be reduced by the amount deemed non-recoverable, as a balancing entry to the reversal of the provision to cover expected losses and impairment losses in the income statement, for the part not covered by the provision. For further details on the accounting treatment of “write-offs”, please refer to the following paragraph on “derecognition criteria”.

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 debtor’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: include performing financial assets which have suffered a significant impairment in credit risk compared to the initial recognition. Impairment is measured as the estimated expected loss with reference to a timespan equal to the 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 determined according to a collective process based on certain risk parameters represented by the probability of default (PD), the loss rate in the event of default (LGD, Loss Given Default) and the exposure value (EAD, Exposure At Default) deriving from internal models for the calculation of regulatory credit risk, appropriately adjusted in order to take into account the specific requirements envisaged by accounting regulations.

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

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

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

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

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

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



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

For non-performing exposures, accrued interest is calculated based on amortised cost, i.e., using the value of the exposure - calculated with the effective interest rate - adjusted for expected losses. In case of management of non-performing exposures, or of transfer from stage 3 to stage 2 or stage 1, interest will once again be calculated based on the gross exposure value; the positive difference is recognised, as the recovery of previous impairment losses, as an offsetting entry to item “130. Net impairment (losses)/reversals for credit risk”. The same accounting entry is made in the event that the interest collected is greater than the expected cash flows.

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

d) derecognition criteria

Financial assets are derecognised when: (i) the contractual rights to the cash flows arising therefrom have expired, or when (ii) the financial assets are sold with the substantial transfer of all risks and benefits resulting from the ownership. However, if a relevant portion of the risks and benefits associated with disposed financial receivables have been maintained, they continue to be posted in the financial statements, even if legal ownership of the asset has been effectively transferred.

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. Conversely, if such control has been maintained, even partly, the assets should continue to be recognised to the extent of residual involvement, as measured by the exposure to the changes in value of the assets disposed and to the changes in their cash flows.

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

Finally, assets subject to substantial changes, as more fully described in the paragraph “Renegotiations”, are derecognised.

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 debtor 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 debtors 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 financial 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 debtor 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 debtor will be unable to repay the loan amount. In this case, the gross nominal value of the loan remains unchanged, but the gross book value is reduced by an amount equal to the amount to be written off, which may represent the full exposure or a portion of it. The write-off amount cannot be subjected to subsequent write-backs following an improvement in collection forecasts, rather only as the result of amounts effectively collected.

In the event of derecognition, the difference between the carrying amount 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) Gains/(losses) on disposal or repurchase of: financial assets measured at amortised cost”.



e) reclassification criteria

According to the general rules established by IFRS 9 on reclassifying financial assets, reclassifications to other categories of financial assets are not permitted unless the entity changes its Business Model for managing financial assets. In these cases, which are expected to be highly infrequent, financial assets may be reclassified from the category 'measured at amortised cost' to one of the other two categories envisaged by IFRS 9 (financial assets measured at fair value through other comprehensive income or financial assets measured at fair value through profit or 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 or loss" and, under equity, in the appropriate valuation reserve, in the case of the reclassification under "Financial assets measured at fair value through other comprehensive income".

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

4 Hedging transactions

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

Given the decision of the Bank to avail itself of the option of continuing to fully apply the rules of IAS 39 for hedging relationships, it is not possible to designate equity securities classified under Financial assets measured at fair value through other comprehensive income (FVOCI) as items hedged against price or exchange rate risk, given that these instruments do not impact the income statement, not even in the event of sale (except for the dividends that are recognised in the income statement).

b) recognition criteria

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

A relationship qualifies as a hedge, and is represented in the accounts, if and only if all the following conditions are met:

- at the start of the hedge there is a formal designation and documentation of the hedging relationship, the company's objectives in managing the risk and the strategy in carrying out the hedge. This documentation includes the identification of the hedging instrument, the hedged item or transaction, the nature of the hedged risk and how the company assesses the effectiveness of the hedging instrument in offsetting the exposure to changes in the fair value of the hedged element or cash flows attributable to the hedged risk;
- the hedge is expected to be highly effective;
- the planned transaction subject to hedging, for cash flow hedges, is highly probable and presents an exposure to changes in cash flows that could affect the income statement;



- the effectiveness of the hedge can be reliably measured;
- the hedge is valued on the basis of a continuity criterion and is considered highly effective for all the reference financial years for which the hedge was designated.

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 these changes, taking into account the intent pursued by the company at the time the hedge is put in place. With reference to the hedged risk, the hedging is effective (within the 80% to 125% window) when the changes in fair value (or in the cash flows) of the hedging instrument offset the changes in the hedged item almost entirely.

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

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

c) measurement criteria and revenue recognition criteria

Hedging derivatives are measured at fair value. In particular:

Fair value hedging

In the case of specific fair value hedging, the change in the fair value of the hedged element (for changes generated by the underlying risk factor) adjusts the book value of the hedged element and is immediately recognised, regardless of the category to which the hedged asset or liability belongs, along with the change in the fair value of the hedging instrument, in income statement item "90 - Net profit (loss) from hedging". Any difference, i.e. partial ineffectiveness of the hedging derivatives, reflects their net P&L impact.

If the hedging relationship is suspended, the hedged instrument, if not derecognised from financial statements, is returned to the original valuation criterion of the class to which it belongs. Specifically for instruments measured at amortised cost, the cumulative revaluations/write-downs recorded as a result of changes in the fair value of the hedged risk are recognised in the income statement in interest income and expense over the residual life of the hedged item, based on the effective interest rate. Instead, if the suspension of the hedge is accompanied by the derecognition from financial statements of the hedged item (e.g., sale or early repayment), the fair value portion not yet amortised is immediately recognised in the income statement under the item "90 - Net profit (loss) from hedging".

With regard to generic fair value hedging transactions (macro-hedges), changes in fair value of the hedged risk of assets and liabilities subject to hedging are recorded in the balance sheet, respectively, under item "60 - Change in value of macro-hedged financial assets" or "50 - Change in value of macro-hedged financial liabilities". The offsetting item for changes in value in both the hedged element and the hedging instrument, similar to specific fair value hedges, is item "90 - Net profit (loss) from hedging" in the income statement. In the event of termination of a generic fair value hedging relationship, the cumulative revaluations/write-downs recorded in the above-mentioned balance sheet items are recognised in the income statement under interest income or expense for the residual duration of the original hedging relationships, subject to verification that the prerequisites have been met.

Cash flow hedging

The changes in fair value of the hedging instrument are posted to a specific shareholders' equity reserve (item "110 - Valuation reserves") with reference to the effective portion of the hedge, while fair value changes of the hedging instrument that are not offset by changes in the hedged item's cash flows are posted to the income statement under item "90 - Net profit (loss) from hedging". If the cash flow hedge is no longer considered effective, or the hedging relationship is terminated, the total amount of profits or losses on the hedging instrument, already recognised under "Valuation reserves", is recognised in the income statement only when the hedging transaction will take place or when it is no longer considered possible for the transaction to occur; in the latter circumstance, the profits or losses are transferred from the shareholders' equity item to the income statement item "90. Net profit (loss) from hedging".

Hedges of foreign currency investments

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



d) derecognition criteria

If the tests do not confirm hedge effectiveness, both retrospectively and prospectively, hedge accounting is discontinued as described above. In this circumstance, the hedging derivative contract is reclassified under "Financial assets measured at fair value through profit or loss" and in particular under financial assets held for trading.

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.

As an exception to the provisions of IAS 39, discontinuing is not carried out following the updating of the documentation on the hedging relationship (due to the change in the hedged risk, the hedged underlying, the hedging derivative or the method for verifying the resilience of the hedge) in the event of changes necessary as a direct consequence of the Reform of the reference indices for the determination of interest rates (IBOR Reform) and carried out on an equivalent economic basis.

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 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 controlling relationship is established if the Bank meets simultaneously the following conditions:

- has the power to direct the relevant activities, if:
 - it acts as fund manager and there are no substantial rights of dismissal by other investors; or
 - has a substantive right to dismiss the fund manager (outside the Group) without just cause or for reasons attributable to the performance of the funds; or
 - the governance of the fund is such as to allow the Bank to substantially govern the relevant activities;
- has a significant exposure to the variable returns of the fund, through the direct holding of units deemed significant, in addition to any other form of exposure related to the economic results of the fund;
- it is in a position to affect these returns through the exercise of power, if:
 - it is the fund manager;
 - it has a substantial right to dismiss the fund manager (external to the Group);
 - it has a right to participate in the fund's committees such as to give to the Bank the legal and/or practical authority to control the activities carried out by the manager;
 - there are contractual relationships that bind the fund to the Bank for the subscription or placement of units.



Lastly, with reference to structured entities - special purpose securitisation vehicles, the Bank checks the fulfilment of requirements of control over special purpose securitisation vehicles, considering both the possibility of exercising power over the relevant assets for its own benefit and the ultimate purpose of the transaction, as well as the involvement of the investor/sponsor 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 shareholders’ 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 contracts or agreements of another nature, according to which financial and management decisions with strategic purposes are made through the unanimous consent of all parties that share control. This occurs when the voting rights and control of the economic activity of the investee are shared equally by Banca MPS and another entity. In addition, a joint investment is defined as an equity investment in which, even in the absence of an equal share of voting rights, the unanimous consent of all parties sharing control is required for the making resolutions concerning the relevant activities.

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 equity 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 equity investment, including those arising from its final disposal.

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

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

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

d) derecognition criteria

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

6 Property, plant and equipment

a) classification criteria

Property, plant and equipment include land, properties for business use, investment properties, systems, furnishings and fixtures, equipment of any type and artworks.



Operating properties are properties owned by the Bank and used in the production or supply of goods and 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).

This item also includes tangible assets classified according to IAS 2 “Inventories”, which mainly relate to assets arising from the enforcement of guarantees or from the purchase at auction that the company intends to sell in the near future, without carrying out significant restructuring work, and which do not qualify for classification in the previous categories.

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

This category also includes i) rights of use acquired through leasing, both financial and operating, relating to property, plant and equipment that the Bank uses as lessee in the business or for investment purposes, ii) assets granted under operating leases (for lessors), as well as iii) improvements and incremental expenses incurred on owned assets and third-party assets, the latter provided they are identifiable and separable (e.g. ATM).

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 benefits are booked as an increase in the value of the assets, while expenses for ordinary maintenance are booked to the income statement.

c) measurement criteria and revenue recognition criteria

Subsequent to initial recognition, property, plant and equipment for business use are valued at cost, as defined above, net of cumulative depreciation and any cumulative impairment, with the exception of:

- real estate used in the business for which the Bank has adopted the option allowed by IAS 16, to measure them on the basis of the revaluation method;
- properties held for investment purposes, for which the Bank has adopted the option, permitted by IAS 40, of measuring them on the basis of the fair value method;
- property, plant and equipment falling under IAS 2 are valued at the lower of the cost 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.

The revaluation method requires that assets be carried at a restated amount, equal to the fair value at the date of revaluation, less any accumulated depreciation and value adjustments. More specifically:

- if the carrying amount has increased following a revaluation, the increase is recognised with an offsetting entry in liability item “110 - Valuation reserves”, with the exception of impairment reversals of previous impairment recognised in the income statement, which are recognised in the income statement in item “260 - Net gains (losses) on property, plant and equipment and intangible assets measured at fair value” within the limits of the above-mentioned impairment;
- if the carrying amount of an asset has decreased following a revaluation, the decrease is recognised in the income statement in item “230 - Net gains (losses) on property, plant and equipment and intangible assets measured at fair value” unless the asset has been subject to a previous revaluation, in which case the impairment is recognised as a reduction of the liability item “110 - Valuation reserves”, for up to its total amount.

For capital properties, the Bank reassesses the value at least once a year by means of appraisals prepared by independent experts.

Property, plant and equipment held for business use, including operating properties measured at the “restated value”, are systematically depreciated over their useful life. The depreciable amount, equal to cost (or the net revalued value, if the revaluation method is adopted for valuation purposes) less the residual value (or the amount normally expected to be obtained from disposal, after deducting expected costs to sell, if the asset is already in the conditions, including in relation to age, expected at the end of its useful life), is broken down on a straight-line basis throughout the useful life of the asset, adopting the straight-line approach as the depreciation method. The useful life, subject to periodic review to identify any estimates significantly different from the previous ones, is defined as:

- the period of time in which it is expected that an asset will be usable by the company or;



- the quantity of products or similar units that the company expects to obtain from the use of the asset.

Depreciation begins when the asset is available for use and ends at the most recent date between that on which the asset is classified as held for sale and that of derecognition. For property, plant and equipment valued at cost, depreciation does not end when the asset becomes unused or is withdrawn from active use, unless the asset has already been fully depreciated. If a property for business use becomes unusable or is withdrawn from active use, it is necessary to promptly evaluate the change in the intended use and the resulting reclassification to investment property or assets held for sale. In these cases, depreciation is discontinued.

The following are not amortised:

- land, either on its own or included in the property value, is not subject to depreciation as it has an indefinite useful life;
- works of art as their value is generally bound to increase over time;
- investment properties, as required by IAS 40, which are measured at fair value with a balancing entry in the Income Statement and therefore must not be depreciated;
- tangible assets recognised in accordance with IAS 2.

For leasehold improvements, represented by identifiable and separable tangible assets, depreciation is determined according to the useful life of these assets.

Periodic depreciation is posted to the income statement under item "180 - Net value adjustments to/recoveries on property, plant and equipment".

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, for properties that are owned, with the exception of investment property, and those that are leased, a comparison is made between the book value of the asset and the asset's recoverable value, i.e. the higher of the fair value, less any costs to sell, and the relevant value in use, which is the present value of the future cash flows generated by the asset.

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

Under the fair value method, used for property investments, the positive or negative change in fair value is recognised in the Income Statement in item "230 - Net gains (losses) on property, plant and equipment and intangible assets measured at fair value". For the measurement of the fair value of the property assets in question, a fair value estimation process is carried out at least annually.

For the methods used to measure the fair value and the periodicity of recalculation of real estate assets, please refer to the criteria illustrated in "Part A.4 - Information on fair value" below.

Property, plant and equipment falling under IAS 2 are valued in the same way as inventories and, therefore, at the lower of the cost at initial recognition and the net realisable value, represented by the estimated sale price less the presumed costs for completion and the other costs necessary to make the sale. Any losses in value are posted to the income statement under item "180 - Net value adjustments to/recoveries on property, plant and equipment".

Property, plant and equipment represented by the right of use of assets under lease agreements

Pursuant to IFRS 16, a "lease" is a contract, or part of a contract, which, in exchange for a consideration, transfers the right of use (RoU) of an asset (the underlying asset) for a period of time.

The right-of-use asset acquired through the lease is recognised in the financial statements at the start date of the contract, i.e. at the date on which the asset is made available to the lessee and is initially valued at cost. This cost includes:

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

In connection with the right of use asset, the lessee recognises a liability for the lease under item "10 - Financial liabilities measured at amortised cost" corresponding to the present value of payments due for the lease. The



discount rate used is the implicit interest rate, if it can be determined; otherwise, the lessee's marginal borrowing rate is used.

The Bank uses as the discount rate, where there is no implicit interest rate in the contract, the maturity curve aligned to the individual lease contracts consisting of the Euribor 6M base rate and the blended funding spread, the latter equal to the weighted average of the funding curves for unsecured senior bonds, protected deposits and preference deposits. The adoption of this curve is in line with the characteristics of leasing agreements, which typically provide for fixed fees throughout the duration of the contract, and of the underlying assets.

The discount rate so defined takes into account the creditworthiness of the tenant, the duration of the lease, the asset underlying the right of use and the economic environment, identified in the Italian market, where the transaction takes place and therefore it is in line with the requirements of the standard.

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

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

- short-term leases (equal to or less than 12 months) that do not include a purchase option of the asset leased by the lessee;
- leases in which the underlying asset is of modest value.⁷¹

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

The lease term is determined taking into account:

- periods covered by an option to extend the lease, if the exercise of the same is reasonably certain;
- periods covered by a lease termination option, if the exercise of said option is reasonably certain.

During the term of the lease, the lessee must:

- measure the right of use at cost, net of accumulated amortisation and cumulative value adjustments determined and recognised on the basis of the provisions of IAS 36 "Impairment of assets", adjusted to take into account any restatements of the lease liabilities;⁷²
- increase the liability deriving from the lease transaction following the accrual of interest expense calculated at the implicit interest rate of the lease, or, alternatively, at the marginal borrowing rate and reduce it for payments of principal and interest.

In the event of changes in the payments due for the lease, the liability must be restated; the impact of the recalculation of the liability is recognised as a contra-entry to the asset consisting of the right of use.

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 benefits are expected as a result of their disposal.

Any gains and losses deriving from the disposal or sale of property, plant and equipment are calculated as the difference between the net sale price and the book value of the asset and are recognised in the income statement under item "250. Gains (losses) on disposal of investments".

In the case of the sale of a property for business use, the corresponding valuation reserve accrued is transferred to other components of Shareholders' equity, specifically liability item "150 - Reserves", with no reversal to profit or loss.

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

⁷¹ The significance threshold identified is EUR 5,000.

⁷² In determining the amortisation period, account must be taken of whether or not the transfer of ownership of the underlying asset is envisaged at the end of the lease term or whether the cost of the asset consisting of the right of use reflects the fact that or not that the lessee will exercise the purchase option. In the first case, the amortisation period coincides with the useful life of the underlying asset, determined at the start date. In the second case, the amortisation period coincides with the useful life of the asset consisting of the right of use or, if shorter, the duration of the lease.



7 Intangible assets

a) classification criteria

Intangible assets are non-monetary assets, identifiable and without physical substance, originating from legal or contractual rights, held for use over a multi-year or indefinite period, from which it is probable that future economic benefits will flow and whose cost can be reliably measured.

Intangible assets 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 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 benefits. 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, equal to the positive difference between the consideration paid for a business combination and the fair value of the assets and liabilities pertaining to an acquired company, as best specified in paragraph "16 – Other information, Business combinations".

b) recognition criteria

They are recognised at cost, adjusted by any additional charges only if it is probable that the future economic benefits 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 financial period it was incurred.

c) measurement criteria and revenue recognition criteria

The cost of intangible assets with a finite useful life is amortised on a straight-line basis over the relative useful life. The amortisation process begins when the asset is made available for use and ceases from the moment the asset is derecognised. Instead, intangible assets with indefinite useful life are not amortised but the book value is periodically assessed for impairment.

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

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

The amount of the impairment loss is determined by the difference between the book value of goodwill and its recoverable amount, if lower. Said recoverable amount is the higher of the cash generating unit's fair value, less costs to sell, and its value in use. Value in use is the present value of future cash flows expected to arise from the years of operation of the cash generating unit and its disposal at the end of its useful life. The resulting value adjustments are posted to the income statement under item "190 - Net value adjustments to/recoveries on intangible assets". The same item includes the periodic amortisation of intangible assets with a finite useful life. 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 benefits are expected.



8 Non-current assets held for sale and disposal groups

a) classification criteria

Non-current assets/liabilities and disposal groups for which the book value will presumably be recovered through sale rather than continued use are classified under asset item “110 - Non-current assets held for sale and disposal groups” and liabilities item “70 - Liabilities associated with disposal groups”.

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

b) measurement criteria and revenue recognition criteria

Following initial recognition, non-current assets held for sale and disposal groups, 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.

Should the disposal groups be attributable to discontinued operations (identifiable with the operations of a significant independent business unit or geographical area, also as part of a single coordinate disposal project, rather than an investee company acquired exclusively for resale), the relative revenues and charges, net of tax, are recognised in the income statement under item “290 - Profit (Loss) after tax from discontinued operations” of the income statement. Profit and loss associated with individual assets under disposal are recognised in the most appropriate income statement item.

c) derecognition criteria

Non-current assets and group of assets/liabilities held for sale and disposal groups 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 financial year and current tax assets with the Financial Administration, comprising tax advances, tax credit arising from prior tax returns and other withholding tax credits. In addition, current tax includes tax credit for which reimbursement has been requested from the relevant tax authorities. Tax credits transferred as a guarantee of own debts shall also be recorded within this scope.

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

Deferred tax assets determined on the basis of deductible temporary differences are recognised in financial statements 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 “Tax consolidation” – to generate a positive taxable profit on an ongoing basis, in light of a probability test.

The probability of the recovery of deferred taxes relative to goodwill, other intangible assets and write-downs on loans (known as “convertible 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 Italian 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 financial year in which the loss is incurred.

As a result of the provisions contained in Italian Law Decree no. 83 of 27 June 2015, the convertible DTAs 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 Italian 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 (Italian Law no. 145 of 30 December 2018) repealed the full deductibility of loan write-downs upon first-time application of IFRS 9, exclusively following the adoption of the model for recognising the provision to cover expected losses (ECL), providing for the deductibility (IRES and IRAP) of these write-downs on a straight-line basis over 10 financial 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 Law Decree 225/2010. It should also be noted that the portion referring to 31 December 2019 was deferred to 31 December 2028, as a result of the 2020 Budget Law (Italian Law no. 160 of 27 December 2019).

Furthermore, note that the Bank exercised the irrevocable option provided in Italian 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 write-downs and losses into tax credits; thus, it is necessary to pay an annual fee for each financial year from 2016 onwards, if the conditions apply, until 2030.

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

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

Deferred tax assets and liabilities are calculated using the tax rates expected at the date on which the temporary differences are reversed, on the basis of the provisions in force at the reporting date. In particular, for the purposes of the recognition of deferred tax assets, it was taken into account that Article 5 of Italian Legislative Decree no. 216 of 30 December 2023 repealed the ACE subsidy with effect from 2024. 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 Group companies.



With reference to tax 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 thus determined are posted as receivables from and payables to companies participating in the tax consolidation, classified under other assets and other liabilities, with a balancing entry under item “270 - Tax expense (recovery) on income from continuing operations”.

The Bank has not recognised and does not provide information on deferred tax assets and liabilities relating to Pillar 2 income taxes published by the Organization for Economic Co-operation and Development (OECD), as stated in paragraph 4A of IAS 12.

c) revenue recognition criteria

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

10 Provisions for risks and charges

Provisions for risks and charges: commitments and guarantees given

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 given 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 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 financial year, are recognised for the full amount in the statement of comprehensive income, under the item “Valuation reserves”.

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

Provisions for risks and charges: other provisions

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

The sub-item also includes provisions established at the starting date of lease agreements, stipulated as lessee, which require the dismantling/refurbishment of the underlying assets at the end of the contract. The offsetting entry for



the provision is the asset recognised for the right of use of the property in item “80 - Property, plant and equipment”.

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 benefits is likely to be necessary in order to settle the obligation; and
- a reliable estimate can be made of the likely future disbursement.

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

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.

In particular, it should be noted that the provisions relating to:

- civil and criminal disputes arising from financial information disclosed in the period 2008-2015 are determined as the weighted average of two estimates prepared by external experts:
 - 1) the “differential damage” criterion, which identifies the damage as the lowest price that the investor would have had to pay if he had access to complete and correct information;
 - 2) the so-called “full compensation criterion”, which is based on the argument that false or incomplete information may have a causal impact on the consumer’s choice of investments such that, in the presence of correct information, they would not have *tout court* have made the investment in question. On the basis of this argument, the refundable damage is deemed to be the entire amount invested, after deduction of (a) the residual value of the security (or the amount obtained from the sale of the security), as well as (b) an additional amount that the investor could have obtained from the sale of the securities as soon as parity of information had been re-established;
- out-of-court claims relating to the period 2008-2015, in order to take into account the probability of their transformation into real disputes, the funds were determined by applying an experiential factor to requests made by counterparties;
- representations and guarantees issued in connection with the transfer and demerger of non-performing loans are determined on the basis of the analysis of the validity of the claims received, or, in the absence of suitable elements to make a sufficiently reliable estimate, using a statistical method. In the second case, the estimate is based on the results of a representative sample of exposures transferred/demerged with respect to which the competent functions analytically evaluate the compliance or compliance risk for each of the representations and guarantees released; in the context of this estimate the sample to be analysed and whose results are extrapolated to the entire population is identified.

11 Financial liabilities measured at amortised cost

a) classification criteria

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

This item also incorporates payables booked by the lessee in relation to any stipulated finance and operating lease transactions, as well as repurchase agreements for funding and securities lent against cash guarantees that are fully available to the lender. Finally, operating payables related to the provision of financial services, as defined in the Consolidated Banking Law 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 costs/income directly attributable to the individual funding or issuing transaction and not reimbursed by the creditors. Internal administrative expenses are excluded.

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

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

Lease liabilities recognised to the lessor are measured as the present value of future lease payments still to be paid for the duration of the lease. For more information on determining the duration, please refer to paragraph 6 "Property, plant and equipment represented by the right of use of assets under lease agreements".

c) measurement criteria and revenue recognition criteria

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

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

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

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 disposal or repurchase". A new placement in the market of own securities after their repurchase is considered as a new issue and posted at the new price of placement, with no impact on the income statement.

12 Financial liabilities held for trading**a) classification criteria**

This item includes:

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

After initial recognition, financial liabilities held for trading are measured at fair value, with the result of the measurement recognised in the income statement. For a description of criteria used to determine the fair value of financial instruments, please see Section “A.4.5 Fair Value Hierarchy” in Part A of these Notes to the financial statements.

d) revenue recognition criteria

Profit and losses from trading and capital gains and losses from valuation are recognised under item “80 - Net profit (loss) from trading” in the income statement, including those relating to derivative instruments related to the fair value option.

e) derecognition criteria

Trading 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 arising from ownership.

13 Financial liabilities measured at fair value

a) classification criteria

This category includes financial liabilities for which, upon initial recognition, the option of measurement at fair value through profit or 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 or loss is consistent with an investment or risk management strategy documented as such by senior management; or
3. a host instrument embeds a derivative which significantly modifies the cash flows of the host and should otherwise be unbundled.

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

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

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

b) recognition criteria

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

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

c) measurement criteria and revenue recognition criteria

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



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

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

d) derecognition criteria

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

For financial liabilities represented by securities issued, derecognition also occurs if previously issued securities have been repurchased. The difference between the book value of liabilities and the amount paid to purchase them is recorded in the income statement under item “110 - Net profit (loss) from financial assets and liabilities measured at fair value through profit or 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 reporting date. 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 financial year when the investment is disposed of or reduced.



15 Other information

Other financial statement items

Cash and cash equivalents

This item includes currencies that are legal tender, including foreign banknotes and coins and all loans “on demand” in the form of current account and 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 compulsory reserve. The item is posted at face value. For foreign currencies, the face value is converted into euros at financial year-end exchange rate.

Change in value of macro-hedged financial assets and liabilities

These items include, respectively, the positive or negative balance of changes in fair value of assets (item “60 Value adjustment of financial assets subject to macro-hedging”) and financial liabilities (item “50 Adjustment of value of financial liabilities subject to macro-hedging”), subject to macro-hedging against interest rate risk, whose economic counter-entry is represented by item “90 Net profit (loss) from hedging”, as well as for specific fair value hedges. For more detailed information, please refer to the discussion in paragraph 4 “Hedging transactions”.

Other assets

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

- gold, silver, metals and precious stones;
- items in processing;
- accrued income and prepaid expenses not attributable to its own separate item;
- receivables associated with the provision of non-financial goods or services and accrued income other than that which is capitalised on the related financial assets, including those resulting from contracts with customers pursuant to IFRS 15;
- any inventories according to the definition of IAS 2, excluding those classified as inventories of property, plant and equipment;
- tax credits other than those recognised under item “110 - Tax assets”;
- the tax credits associated with the “Cura Italia” and “Rilancio” Law Decrees,
- 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 the other items on the liabilities side of the balance sheet and includes, for example:

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

Severance pay and other employee benefits

Employee severance pay is defined as a “benefit subsequent to the employment relationship”, in accordance with IAS 19. Following the supplementary pension reform, pursuant to Italian Legislative Decree no. 252 of 5 December 2005, new rules were introduced for severance pay accrued effective 1 January 2007, which is recognised for purposes of the relative accounting treatment. In particular, for companies with an average of at least 50 employees during 2006, the portions of severance pay accrued starting from 1 January 2007 are considered a “defined contribution plan”, both for the case in which the employee opts for supplementary social security, as well as the case in which the employee opts for the allocation to the INPS treasury fund; the charge, recognised under



personnel costs, is limited to the contribution established by regulations envisaged by the Italian Civil Code, without applying any actuarial methodology.

Conversely, the severance pay accrued up to 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 financial 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 equity securities designated at fair value through other comprehensive income, financial assets (other than equity securities) measured at fair value through other comprehensive income, foreign investment hedging, cash flow hedges, exchange rate differences, “individual assets” and groups of assets under disposal, the portion of valuation reserves of equity-accounted equity investments, actuarial gains (losses) on defined benefits investment plans, gains/losses related to the change in own creditworthiness relating to liabilities under fair value option, property for business use measured on the basis of the restated value method.

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 share 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 financial year in which the Shareholders’ Meeting approved their distribution.

Other significant accounting practices

Revenues from contracts with customers (IFRS 15)

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



IFRS 15 “Revenue from contracts with customers” introduced a model for the recognition of revenues deriving from contractual obligations with customers, which is based on the concept of transfer of control and not only on the concept of 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 revenue calculation purposes, the consideration is defined as the amount believed to be due in exchange for the transfer of goods and services and may include fixed amounts, variable amounts, or both. Specifically, the contract’s consideration may vary based on reductions, discounts, reimbursements, incentives, performance bonuses, or other similar elements. The consideration may also vary depending on whether a future event occurs (as in the case of a fee linked to performance objectives).

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

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

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

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

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

For contracts for the placement of third-party products, which provide for the reimbursement of part of the commissions received in the event of early termination by the customer and in the presence of claw-back clauses



linked to the failure to achieve target commission volumes, the Bank quantified this provision for risk and charges based on historical trends for early repayments and reimbursements to customers. The monitoring and forecasting of volumes of the collected and reversed fees enable the provision to be adjusted at each reporting date. The model that is used is based on the most likely amount method.

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

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

Revenues and costs relating to financial instruments

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

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

Costs for constant services and decreasing payments

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



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

Share-based payments

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

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

Pursuant to IFRS 2, payments based on treasury shares fall into various categories, including:

- as “equity settled” plans, i.e. settled in equity instruments, to be recognised on the basis of the fair value of the work services received;
- as “cash-settled” plans, i.e. settled in cash for an amount indexed to the value of the shares, to be recognised based on the fair value of the liability assumed.

With regard to “equity-settled” plans, 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 the case of “cash-settled” plans, on the other hand, the cost of the work services received is recognised in the Income Statement item “190 - a) Personnel expenses” as a balancing entry to a liability to be measured at fair value based on the price of the shares assigned. The fair value must be updated at the end of each financial year and at the settlement date by posting changes in fair value to the income statement until the liability is extinguished.

When the assigned shares or countervalue 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”).

Financial instruments offsetting

Pursuant to IAS 32, paragraph 42, financial assets and financial liabilities are offset and recognised in the Financial Statements for the net balance if the entity:

- has a legal right to effect such set-off, which is currently exercisable in all circumstances, whether in the ordinary conduct of business or in situations of non-performance, insolvency or bankruptcy of the parties;
- intends to settle transactions on a net settlement or on a gross settlement basis whose material effect is equivalent to a net settlement.

For derivative instruments covered by offsetting agreements that comply with the requirements outlined above, Circular No. 262 provides for offsetting between trading and hedging derivatives as well, with such imbalances to be shown on a net basis: conventionally, the net balance is allocated to the trading portfolio rather than to hedging derivatives, depending on the absolute value of the imbalance between the trading and hedging derivatives.

In accordance with the requirements of IFRS 7, more detailed information is provided in the tables contained in Part B - Other Information of these Notes to the financial statements, in which the following are more specifically set out:

- the book values of assets and liabilities that meet the requirements of IAS 32, paragraph 42, before and after accounting offsetting;
- exposures subject to framework offsetting agreements that have not given rise to offsetting but which may potentially trigger offsetting as a result of specific circumstances;
- the collateral attached to them.

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).



A business combination may give rise to an investment link between the acquiring Parent Company and the acquired subsidiary. In these cases, the acquirer applies IFRS 3 “Business combinations” to its consolidated financial statements, while in the separate financial statements it recognises the acquired interest as an equity investment 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.

Allocation of the acquisition price (“Purchase Price Allocation”)

According to the purchase method, at acquisition date the acquirer must allocate the cost of the business combination (known as PPA, “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. Exceptions to the application of this standard are the recognition of: (i) income taxes; (ii) liabilities relating to employee benefits; (iii) assets deriving from indemnities; (iv) share-based payment transactions; (v) assets held for sale and (vi) reacquired rights for which the respective reference standards apply.

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:
 - o the cost of the business combination;
 - o the amount of any non-controlling interests as described above;



- the fair value of any equity interests previously held by the acquirer;
- and
- the fair value of identifiable net assets acquired, including contingent liabilities.

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

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

Once control has been obtained and the purchase method described above has been applied, any further increase or decrease in the equity interest in a subsidiary in which control is maintained is recognised as a transaction between shareholders. Therefore, the book values of the shareholders' equity of the Group and non-controlling interests 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 the valuation reserves of financial assets measured at fair value through other comprehensive income) must be accounted for in the same way as if the parent company had directly disposed of the assets or the related liabilities (through reclassification in the income statement or shareholders' equity).

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

Business combinations under common control

Business combinations of entities under common control are excluded from the scope of application of IFRS 3 and in the absence of a reference standard, such business combinations are accounted for by referring to Assirevi Preliminary Guidance No. 1 and No. 2 (OPI 1 - "Accounting treatment of business combinations of entities under common control" in the separate and consolidated financial statements and OPI 2 - "Accounting treatment of mergers in the financial statements"). These guidelines consider the economic significance of business combinations on the basis of cash flow impact on the Bank. Transactions that do not have a significant impact on future cash flows are recognised on a going-concern basis. In particular, the values adopted are those resulting from the Consolidated Financial Statements of the Group at the date of transfer of the assets. This is in compliance with the provisions of IAS 8, paragraph 10, which requires, in the absence of a specific standard, to use one's judgement in applying an accounting standard in order to provide relevant, reliable, prudent disclosure that reflects the economic substance of the transaction.

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 at fair value through other comprehensive income as well as financial liabilities measured at amortised cost.

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

Transaction costs include marginal internal and external costs and income attributable to the issue, acquisition or sale of a financial instrument that cannot be charged to the customer. These fees, which must be directly attributable to the individual financial assets or liabilities, impact the original effective return and make the effective interest rate associated with the transaction different from the contractual interest rate. Indistinguishable costs/income 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: rebate fees, fees for failure to use, and for early repayment.

The costs incurred, regardless of the transaction (for example, administrative, stationery, communication costs), which, although specifically attributable to the transaction, fall within the normal practice of loan management (for example, activities aimed at disbursing the loan), as well as commissions for services collected following the performance of structured finance activities that would have been collected regardless of the subsequent financing of the transaction (such as, for example, facilities and arrangements fees), are also not considered in the calculation of the amortised cost.

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 or loss, transaction costs include both commissions for contracts with brokers operating on Italian stock markets and commissions paid to intermediaries operating on foreign stock and bond markets defined on the basis of commission tables.

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

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

The amortised cost also applies to the measurement of the impairment of the financial instruments listed above as well as to the recognition of those issued or purchased at a value other than their fair value. The latter are recognised at fair value, rather than for the amount collected or paid, calculated by discounting future cash flows at a rate equal to the effective rate of return of similar instruments (in terms of creditworthiness, contractual maturities, currency, etc.), with the simultaneous recognition in the income statement of a financial expense or income; subsequent to the initial valuation, they are measured at amortised cost with the highlighting of actual interest greater or less than the nominal interest. Lastly, structured liabilities that are not measured at fair value through profit or loss are also measured at amortised cost as the derivative contract embedded in the financial instrument has been recognised separately.

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 to loans without a defined maturity or revocation.



Purchased or originated impaired financial assets (known as POCI)

These are instruments for which the credit risk is very high and which, in the event of purchase, are purchased at a considerably discounted value compared to the initial disbursement value; for this reason, they are considered already impaired (credit impaired) at the time of first recognition in the financial statements. Depending on the business model with which the asset is managed, these assets are classified in item “30 - Financial assets measured at fair value through other comprehensive income” or in item “40 - Financial assets measured at amortised cost” and among off-balance sheet exposures.

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. It should be noted that, regardless of the stage in which they are recorded, these financial assets are accounted for separately from the three stages of credit risk.

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

Loan renegotiations

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

In general, changes to a financial asset result in its derecognition and to the recording of a new asset when these changes are “substantial”. The determination of the “substantiality” of the change is made by considering only qualitative elements. In particular, renegotiations are deemed to be substantial when:

- introduce specific objective elements that impact on the characteristics and/or the financial flows of the financial instrument (such as for example the change in the currency, the change of the counterparty not belonging to the same group as the original debtor, the introduction of indexing to equity or goods parameters, the introduction of the possibility of converting the loan into participatory equity/financial instruments, and the provision of “pay if you can” clauses which allow the debtor the maximum freedom in repaying the loan in terms of time and amount) in consideration of the significant impact expected from the original financial flows; or
- are implemented with respect to customers that have no financial difficulties, with the objective of adapt the onerousness of the contract to current market conditions.

In the latter case, it should be noted that, if the Bank does not grant a renegotiation of contractual conditions, the customer would be able to obtain funding from another intermediary, which would result in the loss for the Bank of 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 not to be substantial, the gross value is recalculated by determining the present value of cash flows resulting from the renegotiation, based on the original rate of the exposure prior to the renegotiation. The difference between this gross value and the gross book value prior to the change is recorded in the income statement under item “140 - Gains/losses from contractual changes without cancellation” (known as “modification accounting”).

In the case of non-substantial renegotiations, the modifications granted to counterparties experiencing financial difficulties (granting 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.

Lastly, the changes to financial assets following the Reform of the reference indices for the determination of interest rates (IBOR Reform), relating to the change in the basis for determining the contractual cash flows (replacement of the reference index for determining the existing interest rates with an alternative reference rate), do not constitute a derecognition but rather are accounted for as a change. These changes, if made as a direct consequence of IBOR Reform and on an equivalent economic basis, are represented by a prospective adjustment of the actual interest rate - applying paragraph B5.4.5 of IFRS 9 instead of “modification accounting” - with impacts on the net interest income of future periods.

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).

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. Therefore, the Fair Value Option cannot be used for the accounting management of hedges of funding instruments issued prior to the decision to implement the hedge; for these hedges, the hedge accounting technique must be used, which is also used to manage the hedging of the 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 or 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 or 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 designated 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 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

Following the incorporation into national law, Directives 2014/49/EU (Deposit Guarantee Schemes Directive - “DGSD”) of 16 April 2014 and 2014/59/EU (Bank Recovery and Resolution Directive - “BRRD”) of 15 May 2014, starting from the 2015 financial year, credit institutions are obliged to provide the financial resources necessary for the operation of the FITD (Interbank Deposit Protection Fund) and the National Resolution Fund (merged into the SRF - Single Resolution Fund in 2016), through the payment of ex-ante ordinary contributions to be paid annually, until 1% of the total protected deposits are reached by 31 December 2023. Should the financial means available to the FITD and/or the SRF not be sufficient, respectively to guarantee the reimbursement of the protected deposit or to finance the resolution, it is required that credit institutions make the payment of extraordinary contributions. Contributions are recognised under item “160 – Administrative expenses – (b) Other administrative expenses” in the income statement, in application of the IFRIC 21 “Levies” interpretation, on the basis of which a liability related to the payment of levies derives from the occurrence of the “binding event” which triggers the payment obligation. The contributions are considered, from an accounting point of view, similar to a levy and the moment of onset of the “binding event” was identified in the first quarter for the SRF and in the third quarter for the FITD.

The ordinary contribution to the SRF for the year 2023 amounted to EUR 58.6 mln compared to the contribution of 2022, due to a reduction in the annual target level of the Fund and the base contribution of the Bank. In this regard, it should be noted that for 2023, as in the previous financial year, the Bank did not avail itself of the possibility of complying with the request through the assumption of an irrevocable payment commitment (IPC). Consequently, the contribution has been fully recognised in the income statement.

The ordinary contribution to the FITD, recognised in the income statement for 2023, amounted to EUR 70.9 mln, down compared to the 2022 figure, mainly due to the reduction in the Bank’s risk indicators.

Synthetic securitisations

In synthetic securitisation transactions, the Bank, through the execution of a financial guarantee contract, acquires protection against the credit risk underlying a loan portfolio, of which it retains full ownership. These transactions have the objective of freeing up regulatory and economic capital by reducing the level of credit risk of the portfolio underlying the transaction (*Significant Risk Transfer* – “SRT”), which is transferred to an external counterparty without entailing the derecognition of the assets.

The SRT must be constantly monitored also during the life of the transaction, in order to ensure that the regulatory criteria that require the Originator to retain a share of the net economic interest equal to at least 5% of the nominal value of the securitised portfolio, are met.

The transactions are structured in different tranches according to the riskiness of the portfolio. From an accounting point of view, synthetic securitisation transactions take the form of financial guarantees received in which the Bank acts exclusively on the purchaser’s side of protection against credit risk, if the following aspects are ensured:

- stipulation of the contract for the purpose of hedging credit risk, deriving from debt instruments;
- presence of the deliverable obligation, for the purposes of activation of the financial guarantee, in the financial statements of the protection buyer;



- unbudgeted payments in response to changes in specific rates, prices, ratings, exchange rates, indexes or other variables that are governed by the rules on derivatives but as a consequence of a credit event (such as a change to default);
- repayments made by the protection seller only if the protection buyer has suffered losses against the hedged asset and for an amount not exceeding the loss actually incurred.

The premium paid by the Bank to investors for credit risk protection is recognised in the income statement item “50. Fee and commission expense”. The enforcement of the financial guarantee received by the investors upon the occurrence of contractually agreed conditions (known as credit event) relating to securitised loans under income statement item “130. Net impairment (losses)/reversals for credit risk”.

For further details, please refer to the information provided in the consolidated Notes to the financial statements, under “Part E – Section 1– C. Securitisation transactions”.

TLTRO III – Targeted Longer Term Refinancing Operations

The TLTRO III “Targeted longer term refinancing operations” are financing operations conducted by the ECB on a quarterly basis – in the period between September 2019 and December 2021 for a total number of ten rounds – aiming to preserve favourable conditions of bank credit and support the defined monetary policy stance. Each transaction has a duration of three years, except for any early repayment option, which can be exercised according to the timeframe established for each transaction. Following the emergency linked to the COVID-19 pandemic and the unexpected and extraordinary increase in inflation during the second half of 2022, some of the criteria initially set forth by the ECB in 2019 were revised, between March and December 2020, in a positive sense with particular reference to the maximum amount that can be financed and the related remuneration and finally in October 2022, to “normalise” the cost of funding in order to ease inflationary pressure and re-establish stable price conditions in the medium term.

With regard to the remuneration of the loans, following the aforementioned revisions, the interest rate was set at a level equal to the average rate of the main refinancing operations of the Eurosystem (MRO), except for the period between 24 June 2020 and 23 June 2022 (“special interest rate period”), where a lower rate of 50 basis points is to be applied. An incentive mechanism has also been established which provides access to more favourable rate conditions when specific benchmarks are reached, based on the net granted loans. In this regard, since the Bank has achieved these benchmarks since previous years, it is entitled to benefit from the average rate on deposits with the central bank (Deposit Facility Rate - DFR) for the entire duration of the respective transactions, with the exception of the “special interest rate period” - between 24 June 2020 and 23 June 2022 - to which is added the additional reduction of 50 basis points (and in any case not higher than -1%). In detail, with reference to the period between the settlement date of each tranche and 23 June 2020, i.e. the period immediately preceding the special interest rate period, and the period between 24 June 2022 and 22 November 2022 (together the “main interest rate period”), the interest rate for each tranche is equal to the average Deposit Facility Rate calculated with regard to the period between the related settlement date and 22 November 2022. Finally, for the period between 23 November 2022 and the maturity date or any date of early repayment (“last interest rate period”) of the relevant tranche, the interest rate is equal to the average rate on deposits with the central bank calculated in the same period.

Interest is settled in arrears at the maturity or, alternatively, at the time of the early repayment of each TLTRO III transaction.

The Bank applies to TLTRO III transactions the accounting treatment defined pursuant to IFRS 9, considering the refinancing conditions defined by the ECB as market rates in the context of the Eurosystem’s monetary policy measures, as the Governing Council of the ECB may change the interest rate of TLTRO III transactions prospectively at any time, as it did in April and December 2020 and most recently in October 2022. In the absence of specific indications in the reference accounting standards for the treatment of the case, the Bank has defined its accounting policy by equating the loan to a variable-rate financial instrument, with recognition of interest, applicable from time to time, to be estimated on the basis of the probability of being able to achieve certain objectives in terms of “net lending”. In further detail, the rules set forth in IFRS 9 for floating-rate financial instruments (paragraph B5.4.5) are deemed applicable, in line with the treatment pursued in the past for loans obtained under previous TLTRO programmes.

In detail, the accrued interest was then calculated for each time period as follows: (i) -1% from 24 June 2020 until 23 June 2022, having achieved all net lending targets, (ii) average DFR rate calculated between the settlement date of each tranche and on 22 November 2022 for the fees to be recognised in the period prior to the special interest rate period and for the period between 24 June 2022 and 22 November 2022, (iii) average DFR rate calculated between 23 November 2022 and the expected maturity of each tranche on the assumption that the prospective



interest rates are equal to the DFR in force at each refixing date (the DFR increased from 2% to 2.5% effective from 8 February 2023, from 2.5% to 3% effective from 22 March 2023, from 3% to 3.25% effective from 10 May 2023, from 3.25% to 3.5% effective from 21 June 2023, from 3.5% to 3.75% effective from 2 August 2023 and finally from 3.75% to 4.0% effective from 20 September 2023), and that there are no prepayments.

As illustrated above, in view of the relevance of the issue at European level and the different accounting practices applied, on 9 February 2021, ESMA submitted a request to the IFRS Interpretations Committee (IFRIC) for clarification on the accounting treatment of TLTRO III transactions. In March 2022, the IFRIC, after consultation with the IASB, confirmed that this issue will be addressed in the *Post Implementation Review* (PIR) project on the Classification and Measurement of IFRS 9.

In light of the above, for the purposes of preparing these Financial Statements, no official interpretation has been issued on this matter; however, it cannot be ruled out that, upon completion of the analyses underway by the IASB, different approaches may emerge with regard to the accounting treatment to be adopted for the accounting of the case in question compared to that carried out by the Bank as at 31 December 2023.

As at 31 December 2023, TLTRO-III transactions, fully underwritten by the Bank, amounted to EUR 5.5 bn, a decrease of EUR 14 bn compared to the outstanding amounts as at 31 December 2022 as a result of the repayments made on 28 June and 27 September 2023, respectively, and related to two redemptions made in March and June 2021 (EUR 2.5 bn and EUR 3 bn).

Total interest recognised in the income statement for 2023 was negative for EUR -409,0 mln compared to EUR +131 mln in positive accruals as at 31 December 2022. The different contribution depends on the combined effect of the increase in interest rates and the elimination of the advantageous remuneration mechanisms described above.

Tax credits linked to the “Rilancio” Italian Law Decree acquired following assignment by the direct beneficiaries or previous purchasers

The Italian Law Decrees no. 18/2020 (so-called “Cura Italia”) and no. 34/2020 (so-called “Rilancio”) introduced into the Italian legal system incentive tax measures connected with both investment expenses (e.g. eco and sismabonus) and current expenses (e.g. rents of premises for non-residential use). The Government has also intervened on the matter again through Italian Law Decree no. 50/2022 (so-called “Aiuti”) mainly by redefining the pool of potential transferees.

These tax incentives apply to households or businesses, are commensurate with a percentage of the expenditure incurred (in some cases up to 110%) and are disbursed in the form of tax credits or tax deductions (optionally convertible into tax credits). The main characteristics of these tax credits are: (i) the possibility of using them in offsetting; (ii) transferability to third-party purchasers and (iii) non-reimbursement by the tax authorities.

The accounting treatment of tax credits acquired from a third party (transferee of the tax credit) is not subject to a specific international accounting standard. IAS 8 establishes that, when there is a situation not explicitly addressed in an IAS/IFRS, the company management defines an appropriate accounting policy to ensure relevant and reliable disclosure of such transactions.

The Bank, in line with the joint document issued by the Authorities⁷³, has defined its accounting policy which refers to the accounting rules laid out in IFRS 9, applying provisions compatible with the characteristics of the transaction and considering that, substantially, these credits are equivalent to financial assets.

The Bank purchases the credits based on its Tax Capacity with a view to holding them and using them for future offsetting; therefore, these credits are linked to a Held to Collect Business Model and recognised at amortised cost, with remuneration represented in net interest income throughout the recovery time period.

The valuation of these credits is carried out by considering utilisation flows through estimated future offsetting; however, the accounting framework provided by IFRS 9 does not apply to this specific case for the calculation of expected losses, i.e. the expected credit loss (ECL) is not calculated as there is no counterparty credit risk, taking into account that tax credits are realised through offsetting and not collection.

Lastly, as specified in the joint Authority document, taking into account that for the purposes of the international accounting standards these tax credits do not represent tax assets, public contributions, intangible assets or financial assets, the most appropriate classification for representation in the financial statements is the residual category “Other Assets” in the Balance Sheet.

⁷³ Accounting treatment of tax credits purchased pursuant to the “Cura Italia” and “Rilancio” Italian Law Decrees published on 5 January 2021 by the coordination table between the Bank of Italy, Consob and IVASS on the application of IAS/IFRS.



As at 31 December 2023, the nominal value of the total tax credits acquired amounted to EUR 2,279.4 mln. Taking into account credits offset until this point, totalling EUR 441.8 mln, the residual nominal amount as at 31 December 2023 came to EUR 1,837.6 mln. The corresponding carrying amount, recognised in the balance sheet item "130. Other assets" at amortised cost, which takes into account the acquisition price and the net amounts accrued as at 31 December 2023, was EUR 1,660.3 mln.

It should also be noted that the Bank, as at 31 December 2023, received requests for the sale of these receivables for a total amount of approximately EUR 1.5 bn, currently under review/processing.

The total amount of receivables purchased, taking into account the transfer requests in progress - the latter suitably adjusted to factor in the impact of cases abandoned and/or rejected by the Bank - is in line with the estimate of the total tax capacity or the tax/contribution payments that the Bank plans to make and that are available for offsetting with the tax credits from "Building Bonuses".

Early retirement incentive plans

Termination of employment may be attained through the employee's voluntary acceptance of a company plan to reduce staff following a proposal to incentivise voluntary resignations due to redundancies, i.e. in the case of exit incentive plans.

These plans provide employment termination benefits and are drawn up, in terms of the number of exits and the timing of implementation, within the scope of the Business Plan objectives.

The agreements executed between the Bank and the trade unions generally provide for the extent of the pool of potential participants and payments made on a lump-sum basis, in addition to the additional payment of other benefits such as, for example, the maintenance of the insurance policy, the maintenance of welfare coverage and supplementary pension schemes, until the employee's reaches the INPS retirement age.

The Bank recognises a provision by type, under personnel expenses, as a balancing entry to a provision for risks and charges under item "100 Provisions for risks and charges: c) other provisions for risks and charges" when the requirements of IAS 37 are met, i.e. in the presence of an obligation of a contractual nature to provide the services and benefits covered by the agreement, when it is probable that a flow of resources will be required to fulfil the obligation, for an amount that represents the best possible estimate of the expenditure needed to settle the related obligation in place at the reporting date. Since this is a multi-year obligation, the estimated amount is subject to discounting to reflect the effect of the passing of time (IAS 37.45).

When the uncertainty mainly related to the amount of the redundancy incentive cost is resolved, the Bank recognises a liability as a balancing entry to the Provision for risks and charges.



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 (HTCS);
- Financial assets measured at fair value through profit or 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 financial years, reasons for sales, and expectations regarding future sales;
- Held to Collect and Sell (HTCS): 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 does not take place on the basis of scenarios that, based on the entity's reasonable forecasts, are not likely to occur, such as "worst case" or "stress case" scenarios. For example, if the entity expects to sell a given portfolio of financial assets only in a "stress case" scenario, that scenario does not affect the assessment of the entity's Business Model for those assets if that scenario, based on the entity's reasonable forecasts, is not likely to occur.

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

In summary, the Business Model:

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

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

For the Held to Collect 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 though of a significant



amount) and, at the same time, established the parameters to identify sales consistent with this business model, when they are attributable to an increase in credit risk.

More specifically, as part of an HTC business model, sales are permitted i) in the event of an increase in credit risk, ii) when carried out near maturity, and finally, iii) when they are frequent but not significant in terms of value or infrequent, even if their value is significant.

An example is provided below of circumstances under which the Bank deems it permissible to sell the assets in question.

Increase in credit risk

The Bank believes that there is an increase in credit risk when events occur that involve:

- the classification in stage 2 of a financial asset previously classified in stage 1;
- the classification of the financial asset under impaired assets (or stage 3), previously classified under stages 1 or 2.

On the occurrence of these cases, sales are admissible, independently of any frequency or significance threshold; this occurs, for example, in the case of transfers of non-performing loans.

Proximity of the instrument to maturity

The Bank believes that, regardless of any frequency and significance threshold, sales are compatible with the HTC business model if the time to maturity is equal to 10% of the original duration of the instrument, with an absolute limit equal to 12 months.

Frequency and significance below thresholds

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

The two thresholds must be considered separately. As a result, individual sales for an amount exceeding 5% of the initial amounts are not eligible, even if infrequent. If both the frequency and significance thresholds are met by an individual sale, a further assessment is envisaged in terms of aggregate sales volume. In this case, the significance threshold of the aggregate amount of sales identified by the Bank is 10%.

These thresholds were established and applied only for the portfolio of debt securities, as the sales of loans portfolios carried out by the Bank are attributable to an increase in the credit risk and to the de-risking strategy required by the Supervisory Authority.

"Held to Collect" Business Model – Sales

The IFRS 9 accounting standard indicates that the transfer of exposures included in the portfolio of "Financial assets measured at amortised cost" is carried out in accordance with specific significance or frequency thresholds, in proximity of maturity, in presence of an increase in credit risk or the occurrence of exceptional circumstances. With regard to this it should be noted that transfers of debt securities made by the Bank in 2023 took place for a total nominal value of approximately EUR 408.5 mln in compliance with the significance and frequency thresholds, declared in the accounting policies, illustrated in part "A.2 Part relating to the main items of the financial statements", paragraph "Other Information, Other Aspects - Business Model", to which reference is made for further details.

During 2023 and until the date of preparation of these financial statements there were no changes with regard to the admissibility criteria of sales of financial assets managed with the "HTC" Business Model. Lastly, please note that the management of debt securities classified in "HTC" and "HTCS" portfolios continue in accordance with the choices made in previous financial years; therefore, no change in the Business Model has occurred during the financial year which required a reclassification of the securities portfolio.

SPPI test

The other criterion to be used to determine whether a financial asset should be classified under financial instruments measured at amortised cost or at FVOCI - in addition to the Business Model analysis shown above - envisages that the related cash flows are represented exclusively by the payment of the principal and interest on the amount of principal to be repaid. To this end, IFRS 9 regulates that the SPPI 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 mandatorily measured at fair value”.

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

- the principal is intended as the fair value of the financial asset at the time of its initial recognition. This value may change during the life of the financial instrument, for example due to repayments of a portion of the principal;
- 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 the contractual terms introduce exposure to risk or volatility of contractual cash flows that is inconsistent with the definition of a basic lending arrangement, such as exposure to changes in equity or commodity prices, the contractual flows do not meet the definition of SPPI.

In cases where the time value of money is modified – for example when the interest rate of the asset is periodically restated, but the frequency of this restatement or the frequency of the payment does not correspond to the nature of the interest rate (for example, the interest rate is revised monthly on the basis of a one-year rate) or when the interest rate is periodically re-determined on the basis of an average of particular short or medium-long term rates – it must be assessed, both using quantitative and qualitative elements, if the contractual flows still meet the definition of SPPI (so-called benchmark cash flows test). If the test shows that the contractual cash flows (not discounted) are “significantly different” from the cash flows (also not discounted) of a benchmark instrument (i.e. without the modified time value element) the cash flows contractual agreements cannot be considered as meeting the definition of SPPI.

Particular analyses (so-called “look through tests”) are required by the standard and are consequently carried out also for multiple contractually linked instruments (“contractually linked instruments” - CLI) that create concentrations of credit risk for debt relief and for non-recourse assets, for example in cases where the receivable can be asserted only in relation to certain assets of the debtor or the cash flows deriving from certain assets.

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

However, as required by IFRS 9, a contractual cash flow characteristic does not affect the classification of the financial asset if it can only have a *de minimis* effect on the contractual cash flows of the financial asset (in each financial 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.

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

A proprietary tool based on a method developed in-house (decision trees) was developed to perform the SPPI test for credit approval processes. In particular, given the significantly different characteristics, differentiated management is envisaged for products that have a standard contract (typically, the retail loan portfolio) and tailor-made loans (typically, the corporate loan portfolio). For standard products, the SPPI test is conducted when the standard contract is structured, through the “Product Approval” process, and the test result is extended to all individual relationships that refer to that product in the catalogue. Instead, for tailor-made products, the SPPI test is carried out for each new credit line/relationship submitted to the decision-making body through the use of the 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. The trees are used both for the implementation of the rules of the proprietary tool and for the verification and validation of the methodology adopted by the info-providers.



Use of estimates and assumptions when preparing financial statements

The application of certain accounting standards necessarily implies the use of estimates and assumptions that impact the values of the assets and liabilities recognised in the financial statements as well as the disclosure provided on contingent assets and liabilities. The assumptions underlying the estimates developed take into consideration all available information at the date on which these financial statements were drafted as well as the assumptions considered reasonable, also in light of historical experience. By their very nature, it is therefore not possible to exclude that the assumptions used, albeit reasonable, may not be confirmed in the future scenarios in which the Bank will be operating. The results achieved in the future therefore could differ from the estimates developed in order to draft these financial statements and as a result adjustments may be required, to an extent that cannot currently be predicted or estimated, with respect to the carrying amount of the assets and liabilities recognised in the financial statements.

In this regard, please note that estimates could need to be revised following changes in the circumstances on which they were based, the availability of new information or the increased experience gained. Among the main factors of uncertainty that could affect the future scenarios in which the Bank will operate, climate and environmental risks must not be underestimated, given the uncertainty that inevitably characterises the forecasts of events that, by nature, could occur over a long-term time horizon, as well as the effects on the global and Italian economies connected to ongoing geopolitical tensions such as the conflicts between Russia and Ukraine and the conflict in the Middle East, which determine significant uncertainties on the Eurozone's economic forecasts, to be taken as the basis for budget estimates.

Lastly, please note that in order to allow an appreciation of the effects on the financial statements correlated to above mentioned elements of uncertainty, in these financial statements, for the main items of the financial statements subject to estimates (recoverability of deferred tax assets, expected losses on performing loans, recoverability of intangible assets with an indefinite useful life) information is provided on the main hypotheses and assumptions used in the estimate, as well as a sensitivity analysis with respect to alternative hypotheses.

The accounting policies considered to be the most critical for the purpose of a true and correct representation of the Bank's financial situation and results of operations, both in terms of materiality of the values to be recorded in the Financial Statements impacted by these policies, and for the high degree of judgement inherent in the measurements, which implies the use of estimates and assumptions by management, with reference to the specific sections of the Notes to the financial statements for detailed information on the evaluation processes carried out at 31 December 2023. In the following review of relevant accounting policies, the main factors of uncertainty related to the Russia-Ukraine conflict, that could affect the financial statement valuations, are also reported, which are more fully disclosed in the following section "Risks, Uncertainties and Impacts of the Russia-Ukraine Conflict".

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

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

For some of the cases listed above, the main factors that are subject to estimates by the Group, 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;
 - o 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 equity investments, the expected cash flows and cost of capital are estimated;
- c) for calculating the fair value of financial instruments not listed on active markets, if it is necessary to use parameters that cannot be inferred from the market, the main estimates concern, on one hand, the development of future cash flows (or also profits for equity securities), possibly contingent upon future events and, on the other, the level of certain input parameters not listed on active markets;
- d) for quantifying post-employment benefits, the present value of the obligations is estimated, taking into account the cash flows, appropriately discounted, resulting from the historical statistical analysis and the demographic curve;
- e) for quantifying provisions for risks and charges, the amount of disbursements necessary to satisfy the obligations is estimated, where possible, taking into account the effective probability of having to make use of resources;
- f) for calculating the items related to deferred taxation, the probability that taxes will effectively be incurred in the future (temporary taxable differences) and the degree of reasonable certainty - if any - of future taxable profits at the time the taxes can be deducted is estimated (temporary deductible differences);
- g) for the determination of the fair value of the properties, carried out through the preparation of specific appraisals by a qualified and independent company, certain unobservable input data are estimated, such as, for example, the discount rate, the capitalization rate of income, etc.

For point a), b), c) and f) please refer to the following paragraphs: “Methods for calculating impairment on IFRS 9 financial instruments”, “Methods for calculating impairment on equity investments”, “Methods for calculating impairment on other non-financial assets” and “Methods for recognising deferred tax assets (probability test)”; as regards point g), please refer to paragraph “A.4.1. Fair value levels 2 and 3: valuation techniques and inputs used” and finally, for point c), please refer to paragraph A.4.5 “Fair value hierarchy” in the Notes to the financial statements. The actual technical and conceptual solutions used by the Bank are analysed in more detail in the individual sections of the notes to the balance sheet and income statement, where the distinct contents of each item in the financial statements are described. With regard to the cases referred to in points d) and e), please refer to Section 12 under liabilities in the Notes to the Financial Statements “Defined benefit company pension funds” and Part E of the Notes to the Financial Statements, Section 1.5 “Operational risks”.

Methods for calculating impairment on IFRS 9 financial instruments

Pursuant to IFRS 9, at each reporting date, financial assets other than those measured at fair value through profit or 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 or 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.

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 expected loss over the remaining life of the instrument (lifetime);



- stage 3: includes all non-performing loans, i.e. non-performing exposures that present objective evidence of deterioration and which must be adjusted by using the lifetime expected loss concept.⁷⁴

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

The scope of exposures classified in stage 3 includes the corresponding non-performing exposures, in accordance with the provisions of the Bank of Italy rules, defined in Circular no. 272 of 30 July 2008, as updated, and referred to in Bank of Italy Circular no. 262 “Bank financial statements: compilation formats and rules”, to the non-performing exposures aggregate pursuant to ITS EBA (EBA/ITS/2013/03/rev1 24/7/2014)⁷⁵.

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 non-performing 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 debtor may default (e.g., a crisis in the debtor's business sector);
- Past due and/or overdrawn exposures: on-balance sheet exposures, other than those classified as bad loans 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 debtor.

In addition, the Bank of Italy regulations, in line with EBA standards, have introduced the definition of “forborne exposures”. This concerns, in particular, exposures benefiting from tolerance measures, which consist of concessions granted to the debtor, 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 debtor's ability to fulfil the contractual commitments originally assumed, and that would not have been granted to another debtor 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 debtors classified either in the performing or the non-performing (impaired) status. For exposures with forbearance measures classified as unlikely to pay, the recovery to a position of performing can only take place after at least one year has elapsed from the time the concession was granted (known as the “cure period”) and all the other conditions provided for in paragraph 157 of the EBA ITS are satisfied.

In any case, renegotiated exposures should not be considered forborne when the debtor 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:

- when these indicators are present, the financial asset is included in 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

⁷⁵ The regulatory framework of the New Definition of Default was supplemented with the application, starting from 1 January 2021, of the “Guidelines on the application of the definition of default as per Article 178 of EU Regulation no. 575/2013” (EBA/GL/2016/07).



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 these indicators are not present, the financial asset is included in stage 1. In this case, the assessment requires that expected losses are recognised on the specific 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 criterion as “main” driver, based on the change (beyond established thresholds) in the lifetime probability of default compared to when the financial instrument was initially recognised in the financial statements;
- 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 of counterparties classified in the Proactive Management portfolio characterised by high risk elements;⁷⁶
 - o exposures past due by more than 30 days;
- backstop indicators, i.e., credit delinquency factors, which suggest 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 for the purposes of the classification among non-performing exposures.

With particular reference to the relative quantitative criterion applicable to credit exposures with customers, the Bank has determined as a reference the change, within internal thresholds differentiated by segment, product, initial rating class, vintage and geographical area, 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. The exceeding of the above mentioned thresholds represents an expression of significant increase in the credit risk and the subsequent transfer of a single credit line from stage 1 to stage 2. The comparison is based on the homogeneous residual durations and on homogeneous PD models, for example, if the definition of default changes over time, the original lifetime forward-looking cumulative PD is recalculated to take account of said new definition of default.⁷⁷ Cumulative PDs subject to comparison are based on the same model used for ECL purposes (e.g. definition of PIT (Point in Time) PD, macroeconomic scenarios, expected life/contractual life). In order to obtain a unique classification result, use is made of a cumulative PD resulting from the weighted average of the cumulative PDs calculated for the individual prospective scenarios using the probabilities of the scenarios as weights. The threshold of significance is determined by historically measuring, through quantile regression analysis per cluster, that level of ratio, between the lifetime forward-looking cumulative PD at the reporting date and that at the origination date, which may be considered predictive of the classification as NPE.⁷⁸ The threshold is determined so as to minimise false positives and false negatives and maximise true positives and true negatives.

For debt securities that do not have rating equal to or above 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 compared with a certain threshold. For corporate issuers, the multi-year PD curve is the multi-year corporate segment one relating to vintage 1 estimated entirely by the Group; for government issues, the multi-year PD curve is the one prepared on the basis of the Moody's, Standard & Poor's and Fitch migration matrices of 1-year for government bonds; Standard & Poor's migration matrices corresponding to the Euro area

⁷⁶ On the basis of internal policies, the macro-factors that determine the assignment of the “Proactive Management” management category are the internal rating class (below the D1 threshold) or the “activation” of default detection parameters of the early warning systems classified as highly relevant or binding, which include the EBITDA; these parameters pertain to areas of investigation relating to prejudicial, performance, centralised risks, Financial Statements and the forbearance state in loans.

⁷⁷ The assessment at 31/12/T of the significant increase in credit risk of a 30y mortgage loan disbursed on 31/12/T-5 is made by comparing the forward-looking cumulative lifetime PDs over the 25y residual life.

⁷⁸ The classification as NPE is measured over multi-year time horizons



were used to estimate multi-year PDs of credit exposures to banks and non-banking and financial institutions (NBFIs). Cumulative PDs subject to comparison are based on the same model used for ECL purposes 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, at the valuation date, have a rating level equal to investment grade, in full compliance with the provisions of IFRS 9. For debt securities, as well, a qualitative criterion was introduced to identify the existence of a “significant increase” in credit risk, which determines the stage 2 allocation of tranches belonging to counterparties in the high-risk management portfolio. 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 than the previously recognised lifetime losses, by booking a write-back to the income statement. During the 2023 financial year, in order to reduce the frequency of transfers between stages, a stabilisation rule was introduced that requires a probation period both inbound and outbound.

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

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

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

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

- adoption of a Point in Time (PIT) PD against the Through the Cycle (TTC) PD used for regulatory purposes;
- elimination of certain additional components from LGD, such as indirect costs (non-recurring costs), further conservative margins specifically introduced for statutory models, the component linked to the economic downturn; as well as to reflect the most current recovery rates (PIT), forward-looking expectations about future trends 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 discount 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 contractual plans, regardless of the measurement methods (amortised cost or fair value through other comprehensive income). For commitments to disburse funds and guarantees given (off-balance sheet exposures), EAD is instead taken at nominal value weighted by a specific credit conversion factor (CCF).

IFRS 9 establishes that, at each reporting date, an entity must measure the impairment of an asset based on the expected credit loss, based on available, reasonable and consistent information, without incurring excessive costs or making disproportionate efforts. Therefore, the forward-looking approach envisaged by IFRS 9 for purposes of determining the expected loss represents a key aspect of the measurement model.

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

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

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

The forward looking forecasts of the macroeconomic indicators, provided by a leading external consultant and internally re-formulated by the Studies and 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. The macroeconomic scenario is updated at least once a year, at the time of preparation of the separate financial statements and every time the latest base scenario shows, compared with the one already in use, a net cumulated difference of the GDP, over a 3-year period, greater than or equal to 0.5%, in absolute value. In greater detail, for the impairment of loans, in addition to the “baseline” scenario, i.e., the forecast macroeconomic scenario on the basis of which the Bank develops its projections of economic/equity and risk data over a short- and medium-term time frame, two symmetrical scenarios are assumed: an alternative severe scenario (severe but plausible) and an alternative improved scenario (best), which differ in their level of favour/adversity to economic development and growth. For more details on the macroeconomic scenarios incorporated in the calculation of expected losses of performing exposures, please refer to the following paragraph “Bank macroeconomic scenario for the valuation of receivables in the 2023 financial statements”

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

- PD: Italian GDP, unemployment rate, interest rates, inflation, commercial property prices, and stock indices;
- LGD/EAD: Italian GDP, unemployment rate, price of residential properties, interest rates, investments in construction, machinery and means of transport;
- cure/danger rates: Italian GDP and Residential property prices;
- haircut: commercial and residential property prices.

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

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

For further details on the model for determining expected losses on performing exposures, with particular reference to the stage assignment criteria, the method for calculating the risk parameters, the macroeconomic forecast scenarios and the related probabilities of occurrence, please refer to the paragraph “Methods to measure expected



losses” contained in “Part E - Information on risks and hedging policies” of the consolidated Notes to the financial statements.

Impairment of non-performing financial assets

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

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

For purposes of estimating future cash flows and the relative collection times, the loans in question of a significant 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”) and suitably integrated to take into account forward-looking information, is represented by:

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

The statistical valuation, carried out for bad and unlikely-to-pay loans of less than EUR 1 mln and for all past-due and/or overdrawn loans, presents specific characteristics depending on the type of exposure involved.

With reference to bad loans, the statistical valuation is based on non-performing LGD grids, where the LGD model is mainly characterised by the differentiation of the loss rates, based on the permanence in the risk status (“vintage”), as well as the type of customer. The grids are also differentiated by other significant analytical characteristics on the model estimation stage (e.g. technical form, type of guarantee, geographical area, exposure band, etc.). The recovery time grids are broken down mainly by regulatory segment and by other significant analysis axes in the modelling (e.g. recovery procedures, exposure band, technical form).

With reference to unlikely-to-pay and non-performing past due exposures, the valuation is carried out by applying statistical LGD grids specifically estimated for positions classified in these administrative categories, in line with the LGD grids estimated for bad loans. The LGD for unlikely-to-pay and non-performing past due exposures is obtained by recalibrating the bad loan LGD through the danger rate module. The danger rate is a multiplicative correction factor aimed at recalibrating the bad loan LGD with the information available on other default events, so as to obtain an LGD representative of all possible default events and their evolution.

Regarding the treatment of large-scale disposals, in line with IFRS 9 accounting standards, which require that the following forward-looking information be considered, it is necessary to assess whether transactions of this kind performed in the past can be regarded as foreseeable or probable also in the future, or whether, on the other hand, since these are one-off transfers of an extraordinary nature, the related impacts should be excluded from the forward-looking information. In fact, it is not considered in compliance with the provisions of IFRS 9 on forward-looking information, the inclusion in the calculation of the accounting LGD, and therefore of the ECL, of the effects from transactions that the Bank does not expect to occur in the future or that are considered unlikely. In applying the aforementioned accounting provisions in relation to the prospects for the sale of NPLs, the Bank distinguishes between ordinary and extraordinary transactions, where the extraordinary nature of the transfers is connected to the presence of important strategic elements and significant dimensions, and is evidenced by specific decisions of the ECB. Therefore, ordinary transfers are always included in the determination of the accounting LGD as the transfer represents an alternative collection method to a direct collection from the debtor; by contrast, extraordinary transactions are in no way considered representative of the transactions that the Group will carry out in the future, having now reached a physiological NPE ratio level and are therefore excluded from the estimation of the accounting LGD.



The analytical-specific valuation for bad loans and unlikely to pay exceeding EUR 1 mln is an assessment made by the managers on the individual positions based on a qualitative-quantitative analysis of the economic and financial situation of the main debtor and the guarantors in order to identify and quantify the sources and recovery times consistent with the most likely scenario of evolution of the credit relationship, i.e. the restoration of the counterparty to performing status or, alternatively, the progressive decommitment also through the use of scheduled transfers in line with the NPE Strategy.

In particular, for bad loans, a set of factors are taken into account, which may or may not be present depending on the characteristics of the positions, and which must be assessed with the utmost accuracy and prudence, including by way of example:

- nature of the credit, preferential or unsecured;
- shareholders' equity of obligors/third parties providing collateral;
- complexity of existing or potential disputes and/or underlying legal issues;
- exposure of obligors to the banking system and other creditors;
- latest available financial statements;
- legal status of obligors and pending bankruptcy and/or individual proceedings.

To find the estimated realizable value of loans secured by real estate and to take into account both the historical collection data, differentiated between commercial and residential properties, and forward-looking considerations, in line with IFRS 9, the approach adopted is focused on the valuation of real estate in reference to the average expected auction and the corresponding reduction in the observed price, calculating the average haircuts differentiated by type of real estate guarantee (residential and non-residential).

With reference to bad real estate loans deriving from lease agreements, in light of the characteristics of the product (absence of auctions), the haircut is estimated as loss of value of the asset between the last available appraisal value and the expected sale price, calculated based on the evidence emerging from the collection process.

With reference to unlikely to pay loans, the assessment is based on a qualitative-quantitative analysis of the economic, equity and financial position of the debtor and on a timely verification of the risk situation; in the presence of counterparties. In the case of unlikely-to-pay loans secured by real estate and valued on the basis of the gone-concern scenario approach specified below, the haircut is applied not to the entire market value of the guarantee (as in the case of bad loans) but only to the portion pertaining to the credit exposure that is expected to become bad loan; alternatively, the cure rate of the related exposures is taken into account.

The appraisals that can be used for the valuations are those carried out by independent experts enrolled in Registers and/or Professional Associations and are subject to an annual update process.

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

- going concern approach: the debtor'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 debtor'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 debtor or extraordinary transactions;
- gone concern approach: applicable in cases in which it is believed that the debtor's cash flows will be significantly reduced or even in cases of reduced reliability of the corporate Business Plans. 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 as well as, in the alternative, on the realisation value of the assets, taking into account liabilities and any rights of pre-emption.

The NPE Strategy may also contemplate, under certain conditions, the sale of portfolios en bloc to entities specialised in the management of non-performing loans, in order to reduce collection times by maximising the recovered revenues as much as possible and thus strengthening the NPE destocking process.

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). In particular, consistently with the objectives of the transfer, from time to time arranged by the competent corporate Bodies in relation to exposures classified as bad



loans or unlikely to pay, two different estimates of cash flows that the Bank expects to collect are associated with them:

- the first determined by using as reference the scenario of recovery from the debtor 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.

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

- loans subject to ordinary collection process: application of the relevant accounting policies previously illustrated;
- loans included in the sale programme: measured with the ordinary policy plus any add-ons to adjust the portfolios to the presumable realisable value.

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

- selection of the portfolios that are presumed to be sold: the perimeter includes positions with a certain attractiveness on the market that can also be inferred as a result of expressions of interest already 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 is guided by the target sales level included in the NPL Strategy;
- sale prices: derived from mass transactions on similar portfolios and single names made by the Bank or from transactions carried out on the market in recent years.

The aforementioned add-on is not applied in the case of sales with a price constraint defined to an extent not lower than the net book value determined by applying only the hold scenario.

Within the range of possible approaches to estimation models permitted by the relevant international accounting standards, the use of a methodology or the selection of certain estimation parameters may significantly affect the valuation of receivables. These methodologies and parameters are necessarily subject to a continuous updating process, also in view of the historical evidence available, with the goal of refining the estimates to better represent the presumed realisable value of the credit exposure.

For updates introduced in the measurement of expected losses, please refer to the specific paragraph contained in the "Credit risk" section of "Part E - Information on risks and hedging policies" of the consolidated Notes to the financial statements.

In light of the above, it cannot be excluded that alternative monitoring criteria or different methodologies, parameters, assumptions in determining the recoverable value of the Bank's credit exposures – also affected by possible alternative recovery strategies approved by the competent corporate bodies as well as the evolution of the economic-financial and regulatory context of reference – may determine different valuations with respect to those carried out for the purposes of preparing the financial statements as at 31 December 2023.

Incorporation of climatic and environmental risks in the determination of expected losses

One of the most complex aspects to assess, for the purposes of estimating the expected losses of credit exposures, is the actual relevance of climatic and environmental risks, given the uncertainty that inevitably characterises forecasts of events that, by nature, are likely to occur over a long-term time period.

The models currently used by the Bank to calculate expected losses (ECL) do not directly incorporate the risks arising from the exposure of debtor counterparties to climate and environmental factors, however, in 2023 the Bank has continued to refine its PD, LGD and EAD models currently in use in order to be able to discriminate within them also the typical variables of climate and environmental risks such as physical and transition risk. It is



expected that these models will be able to be used as early as the 2024 financial year, subject to the completion of the internal validation process currently underway.

Pending the approval of the new models, the Bank has factored climate-environmental risks into the ECL calculation models for the year 2023, estimating the impacts that the different transition scenarios may produce on the accounting models currently in use, taking into account that these are scenarios characterised by transition policies and implementation times that can significantly affect various macroeconomic indicators. The analyses carried out led to higher provisions for a total of EUR 37,8 mln.

With regard to non-performing loans subject to analytical valuation, climate and environmental risks are taken into account in the estimation of the current value of expected future cash flows, on a discretionary basis and in conjunction with other information. Therefore, it cannot be ruled out that the possible development of models capable of more fully factoring climate and environmental risks may result in different assessments with respect to those conducted for the purposes of preparing these Financial Statements.

For an illustration of how the Bank is working to assess environmental factors in the context of lending policies, please refer to “Part E - Information on risks and hedging policies” of the consolidated Notes to the financial statements.

Methods for calculating impairment on equity investments

At the end of every reporting period, the controlling interests, interests 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.

The Bank alternatively uses a set of indicators based on several factors, referring to the investee, including the type of business, market listing and budget objectives. The presence of impairment indicators entails the recognition of a write-down in the amount for which the recoverable value is lower than the book value. The recoverable value is the greater of the fair value less costs to sell and the value in use. For the methods used to determine the fair value, refer to the information in chapter A.4 - Information on fair value in the Notes to the Financial Statements. The value in use is the present value of cash flows arising from the asset; it reflects the estimate of the cash flows expected from the asset, the estimate of possible changes in the amount and/or timing of cash flows, the time value of money, the price for remunerating the asset's risk and other factors that can influence the pricing, by market dealers, of the cash flows expected from the asset. In determining the value in use, the discount method applied to future cash flow is used through discount rates reflecting the cost of capital of the investee⁷⁹. The parameters and projections on which the estimates are based derive from the updating of the companies' plans, which incorporate the indirect effects of conflicts in Ukraine and in Middle-east and the climate issue, if considered relevant, and are significantly affected by the macroeconomic framework and the dynamics of the financial markets, which could see changes that are not foreseeable today.

With reference to controlling interests, the impairment test is performed individually for each investee when this has independent cash flow generation capacity. If the Group's organisational model provides for the assets of the investee to be included in a larger Cash Generation Unit (CGU) or in a different unit, in the separate financial statements the impairment test is not carried out on each individual controlling interest, but on the individual CGU identified at the consolidated level, because only with this procedure it is possible to calculate the recoverable value of the CGU.

The impairment test that was carried out in 2023 required value adjustments for the subsidiary Aiace Reoco in liquidation (EUR 0.2 mln) and for the associate Fidi Toscana (EUR 6.6 mln).

Methods for calculating impairment on other non-financial assets

The property, plant and equipment and intangible assets with definite useful life are tested for impairment in the presence of any indication that the book value of the asset may not be recovered. The recoverable value is computed with reference to the fair value of the property, plant and equipment or intangible asset, net of the disposal charges or the value in use if this can be calculated and exceeds fair value.

In particular, with regards to the software, with reference to closed projects of amounts exceeding EUR 1 mln, the Bank performed the recoverable value check using assumptions and estimates in line with those of the 2022 Financial statements. The impairment test conducted as at 31 December 2023 was based on the monitoring of

⁷⁹ A growth rate applied to available data is used to determine future cash flows that are not made explicit in the companies' plans.



specific key performance indicators (KPIs), identified when the projects were closed, in order to verify the economic benefits assumed in the reference business cases. The outcome of the monitoring showed values of these KPIs exceeding the reference thresholds set in the business cases for all projects. For projects with a value below the aforementioned threshold without specific KPIs, the impairment test of the related software was conducted consistently with previous financial years and led to the recognition of an impairment loss of EUR 0.7 mln.

The values of right of use assets acquired through leasing are subject to impairment testing, if the conditions are met. The test is performed when the following events or situations arise: full/partial abandonment, under-use or non-use of the leased asset. In addition, it is necessary to refer to indicators from internal sources such as signs of obsolescence and/or physical deterioration of the asset, restructuring plans and closures of branches and external sources such as, for example, the increase in interest rates or other rates of return on the market for investments that may cause a significant decrease in the recoverable value of the asset. The outcome of the aforementioned checks as at 31 December 2023 led to the recognition of a minor impairment loss recognised in the item "Impairment losses/reversals on property, plant and equipment".

For information on the rights of use acquired through leasing, please refer to the section "Property, plant and equipment - Item 80" contained in "Part B - Information on the balance sheet" of these Notes to the Financial Statements.

Determination of the fair value of property

Real estate used in the business (IAS 16) and real estate held for investment purposes (IAS 40) are valued in accordance with the revaluation criterion and the fair value criterion, respectively. For this perimeter, the fair value update is determined through the use of specific appraisals prepared by qualified and independent experts, which, depending on the relevance of the individual real estate unit, are conducted in two different alternative ways:

- "full" appraisals: based on a physical inspection of the property assets by the appraiser; or
- "desktop" appraisals, based on an assessment performed with no physical inspection of the property asset and, therefore, based on reference market values.

The valuation methodologies applied by the appraiser in the appraisal are aligned with international IVS (International Valuation Standards) practices and with the requirements stated in the latest edition⁸⁰ of the Red Book of the UK's Royal Institute of Chartered Surveyors (RICS) and they comply with the provisions of IFRS 13. The accounting standard provides, in particular, for non-financial assets that the use by their owner meet the requirement of highest and best use, unless the market participants expect different intended use for the property, which would therefore optimize its value. The valuation approach was therefore specified by the expert appraiser based on the current intended use of the properties, assuming this represents the highest and best use, and considering, in a few cases, alternative uses of the properties where this corresponds to market expectations. Therefore, to find the value of each property, the appraiser identifies the most suitable methodology according to the characteristics of the asset and the conditions of the reference market. The methodologies applied by the appraiser are as follows: Discounted Cash Flow Method (or Discounted Cash Flow - abbreviated to DCF); Market Comparison Approach (MCA); Transformation Method with DCF. In this context, the lease payments, sale prices, discount rates and capitalisation rates were estimated.

With reference to the ESG issue, in which the environmental issue is included, the RICS valuation standards specify the actions to be followed by the appraiser with regard to on-site inspections and the collection of data useful for assessing this aspect. The range of issues to be addressed includes, among others, major physical hazards (floods, heat, fire and storms) and transient hazards (energy efficiency, carbon emissions, climate impact). The impact of these risks is affected by current and historical use of the territory, as well as design, configuration, accessibility, legislation as well as management according to tax regulations.

As at 31 December 2023, the fair values of the entire real estate assets were updated, which is done at least annually unless market situations and/or special conditions make it advisable to bring forward the valuation appraisals from the standard periodicity.

The results of the valuations carried out as at 31 December 2023 are described in the section "Property, plant and equipment - item 80" in "Part B - Information on the Balance Sheet" of these Notes to the Financial Statements, to which reference should be made for further details.

For an in-depth analysis of the valuation approach, valuation methods and the selection of estimation parameters that can significantly influence the calculation of fair value, reference should be made to the specific qualitative and quantitative disclosure in Part A.4 - "Information on fair value".

⁸⁰ The updated version was issued in November 2021 and is effective from 31 January 2022.



Methods for recognising deferred tax assets (probability test)

The Bank verifies the possibility of recognising tax assets based on a probability test, as described below. Forward-looking plans approved by the Boards of Directors of the various companies are used; the plans of the subsidiaries are consistent with the Bank's forecasts. Since the forecast plans cover a limited time horizon, as carried out in practice to determine the forward value of companies, the results subsequent to the plan horizon are assumed to be equivalent to those of the last year of the plan and increased by a compound long-term growth rate "g". In any case, the framework of the probability test is consistent with that of the impairment test used for the measurement of goodwill, except for the specifics related to regulatory requirements (IAS 12 and IAS 36, respectively) such as, for example, the possibility in the probability test to take into account business restructuring and reorganisation actions included in the forecast plans, which is not considered in the goodwill impairment test. For more information reference should be made to paragraph "Impairment test on Group goodwill" included within Section 11 of the Notes to the consolidated financial statements.

In order to reflect the uncertainty associated with realising future taxable income suitable to allow the recovery of deferred tax assets, a discount factor is used based on data observable on the market and consistent with the risk metrics of the investment in Banca MPS shares. The application of this discount factor, equal to 9%⁸¹ as at 31 December 2023, unchanged with respect to the one used for the financial statements as at 31 December 2022, represents a way of reflecting the uncertainty around the realisation of future income; in any case, it is believed that the time period considered for the purposes of the taxable income test, the realisation of which is considered likely, cannot exceed 20 years.

The development of the probability test, where applicable, takes into account the national tax consolidation agreements, for the Group companies participating in them, and the option exercised in the tax return with respect to the possible allocation of residual tax losses in the event of early termination of group taxation. Based on the agreements and the option in force as at 31 December 2023 as well as in previous years, the assessment of the recoverability of the consolidated tax loss carry-forwards and the consequent recognition of the related DTAs, are entirely the responsibility of the Bank as consolidator, which reports the related accounting impacts in its individual financial statements. For further information, please refer to what was previously described in this Section of the Notes to the financial statements, Part A2, "Part relating to the main items of the financial statements".

In particular, as at 31 December 2023, the valuation of the DTAs was carried out in continuity with the methodology already applied to the Financial Statements as at 31 December 2022, thus taking into account the 2022-2026 forecast plan approved by the Board of Directors of the Parent Company on 22 June 2022; the forecast plans of the subsidiaries are consistent with that of the MPS Group.

As a matter of prudence, for the purpose of the valuation for the financial statements as at 31 December 2023, the economic results of 2025 and 2026 outlined in the Business Plan approved by the Bank were not considered in the explicit period, limiting the positive evolution expected for future years to that resulting from the data forecast for 2024; the economic results for the years subsequent to 2026 were determined by increasing the long-term growth rate (g) of the result forecast for the immediately preceding year on a compound basis.

Section 10 - "Tax assets and tax liabilities" contained in "Part B - Information on the Balance Sheet" of these Notes to the Financial Statements provides information on the breakdown of deferred tax assets and the checks carried out on their recoverability, on the sensitivity analyses aimed at allowing an appreciation of the time frame of their recovery, depending on reasonable variations in the main underlying assumptions.

Risks, uncertainties and impacts of the Russia-Ukraine conflict

Among the main factors of uncertainty that could affect the future scenarios in which the Bank will operate, the negative impact on the global and Italian economy directly or indirectly related to the conflict between Russia and Ukraine must be considered.

The uncertainties about the consequences of the war, especially with regard to indirect impacts, and the duration of the war make any valuation process particularly complex, as they, on the one hand, increase the risk of the economic environment in which business is carried out and, on the other, increase the risk of limited predictability of economic projections. These uncertainties translate into an increase in the risk of having to make significant adjustments to the book value of the assets in the financial statements.

In accordance with the recommendations of the supervisory authorities (ESMA and CONSOB)⁸², provided below are the Bank's credit exposures that are directly or indirectly impacted by the conflict, to allow understanding of

⁸¹ Changes to the discount factor are considered when the average of the last 3 years of the rate calculated at the reference date deviates by at least $\pm 1\%$ from the last rate used.

⁸² See in particular the documents "ESMA Public Statement: ESMA coordinates regulatory response to the war in Ukraine and its impact on EU financial markets - 14.03.2022" and "ESMA: Public Statement - Implication of Russia's invasion of Ukraine on half-yearly financial reports - 13.05.2022", "ESMA: European common enforcement priorities for 2022 annual financial reports - 28.10.2022", "CONSOB draws the attention of supervised issuers to the impact of the war in Ukraine with regard to inside information and financial reports - 22 March 2022" and finally "Warning notice no. 3/22 of 19 May 2022".



the extent of the phenomenon and the actions undertaken by the Bank to constantly monitor the credit risks related to the Ukrainian conflict.

With reference to uncertainties associated with the reference macroeconomic scenario, also as a result of the conflict, please refer to the following paragraph “Bank macroeconomic scenario for the valuation of receivables in the 2023 financial statements”.

The impacts of the conflict are constantly monitored by the Bank, as part of an ordinary and no longer a crisis regime, considering it no longer necessary to strengthen governance of the phenomenon, also in relation to the constant reduction of exposures.

The impacts directly related to the Russia-Ukraine conflict are marginal for the Bank, taking into account that it has no operations located in Russia or Ukraine and that credit exposures to customers residing in the aforementioned countries or indirectly related to Russian or Ukrainian counterparties amount, as at 31 December 2023, to EUR 10 mln and are classified as stage 2.

With reference to other risks, exposures denominated in Russian currency are immaterial, and no negative change has been observed in the main liquidity indicators.

Finally, with reference to the indirect impact on credit quality, it should be noted that the initiatives, carried out through contact campaigns, towards customers belonging to the sectors most affected by the energy prices and the difficulties in finding raw materials, triggered by the conflict, came to an end during 2022. The outcome of these initiatives did not indicate the need to take any action other than those already planned and implemented as part of ordinary credit monitoring activities.

Macroeconomic forecasts for 2024, 2025 and 2026

On 16 December 2023, the ECB published the periodic update of its macroeconomic forecasts for the euro area prepared by its staff with input from the individual national central banks, forecasting economic growth to remain weak in the short term in the face of tight financing conditions and a limited expansion of exports. With the decline in inflation – as a result of the elimination of cost pressures and the effects of the ECB’s monetary policy – the recovery of household incomes and the strengthening of external demand, the economy should grow by 0.6% in 2023, by 0.8% in 2024 and by 1.5% in 2025 and 2026. In comparison with last September’s projections, the outlook for the GDP growth rate has been revised slightly downwards for the period 2023-2024 (by 0.1 and 0.2 percentage points, respectively), in the wake of the most recent statistics published and modest data from economic surveys, while they are unchanged for 2025.

To be noted is that inflation continued to fall due to the decline in the energy component, the impact of the tightening of monetary policy and the continued easing of inflationary pressures and supply-side bottlenecks. Overall, in a context in which medium-term inflation expectations are believed to remain anchored to the ECB’s 2% target, overall HICP inflation is expected to fall from 5.4% in 2023 (5.6% in September) at an average of 2.7% in 2024 (3.2% in September), 2.1% in 2025 (unchanged compared to September) and 1.9% in 2026.

In the unfavourable scenario, which factors in the extreme risks of a possible worsening of the conflict in the Middle East, real GDP growth in the euro area is estimated to be 0.7 percentage points lower in 2024 and 0.3 percentage points lower in 2025 and should rise again in 2026, as it is assumed that the effects related to uncertainty will gradually disappear over this time period. Inflation in the euro area measured on the HICP is expected to increase by 0.9 and 0.4 percentage points, respectively, in 2024 and 2025, mainly due to the increase in energy prices worldwide.

The specific scenario for Italy, included in the base scenario of the ECB projections, was released by the Bank of Italy in the document “Macroeconomic projections for the Italian economy” published on 16 December and confirmed in the Economic Bulletin of 19 January 2024. The scenario predicts, after the slight increase in the summer months, a substantial GDP stagnation in the fourth quarter of 2023 and a gradual expansion from the beginning of 2024, supported by the recovery of disposable income and foreign demand. On an annual average, GDP would increase by 0.7% in 2023, 0.6% in 2024 and 1.1% in 2025 and 2026.

Consumer inflation would average 6.0% this year and decline sharply thereafter, averaging below 2% over the next three years. The decline would mainly reflect the sharp fall in the prices of raw materials and intermediate goods, only partly offset by the acceleration in wages.

Macroeconomic scenarios of the Bank for the valuation of loans in the 2023 financial statements

In December 2023, the Bank approved a set of forecast macroeconomic scenarios for the 2024-2027 period developed internally, taking also as reference the forecasts developed by external providers. These scenarios were used as part of the ordinary annual planning process and the calculation of value adjustments of performing and non-performing loans as at 31 December 2023.



The baseline scenario approved by the Bank shows a higher level of conservatism compared to the forecasts published by the Bank of Italy in December 2023, in particular, for the years 2024 and 2025, GDP growth is expected to be 0.4% (0.6% Bank of Italy) and 0.8% (1.1% Bank of Italy). In addition to the baseline scenario, in light of the objective uncertainty present regarding the evolution of the economic context and the provisions of the Regulators, further alternative scenarios have been outlined, in detail an alternative more negative scenario (severe but plausible) and an alternative better scenario (best).

The most severe alternative scenario (*severe but plausible*) foresees a worsening of the global geopolitical situation with continuing tensions in Israel, which would lead to economic repercussions on the prices of energy goods, oil and gas, which would rise again, slowing down the descent of inflation and inducing central banks to raise interest rates further, despite the fact that several countries are experiencing phases of strong slowdown and even a fall in economic activity. With regard to the Italian economy, this general uncertainty would be added to the specific uncertainty due to the high public debt.

The alternative best-case scenario forecasts an improvement in the global geopolitical situation with international pressure on Israel favouring the easing of tensions in the Middle East. In such a scenario, oil and gas prices quickly fall back to bottom levels and favour the emergence of base effects, bringing overall European inflation back towards 2% already in the course of 2024 and guaranteeing a reduction in interest rates one quarter earlier than in the base scenario. In this context, a positive financial market cycle is restarting, so that final demand can also be supported by positive wealth effects.

For information on the performance of macroeconomic variables in the scenarios described above, please refer to “Part E - Information on risks and hedging policies, section 1.1 Credit risk, paragraph 2.3 Methods for measuring expected losses” of the consolidated Notes to the Financial Statements.

The table below shows, by way of example, the scenario updates made by the Bank in December 2023 on the GDP indicator with the relative comparison with the baseline scenario published by the Bank of Italy respectively in October 2023 and December 2023 and with the scenarios used in December 2022.

	Dec-23			Oct-23	Dec-23	Dec 22		
	MPS	MPS	MPS	Bankit	Bankit	MPS	MPS	MPS
	Baseline	Severe but plausible	Best	Baseline	Baseline	Baseline	Severe but plausible	Absolute Worst
2023	n.a	n.a	n.a	0.7%	0.7%	0.10%	-0.91%	-2.53%
2024	0.43%	-0.40%	1.49%	0.8%	0.6%	1.01%	0.48%	0.02%
2025	0.83%	0.45%	1.40%	1.0%	1.1%	1.41%	1.02%	0.71%
2026	0.88%	0.49%	1.18%	n.d	1.1%	n.a	n.a	n.a

Note that the baseline scenario used by the Bank in 2023 has always been in line, if not more conservative, with the forecasts provided by the Bank of Italy.

With reference to the risk parameters, it should be noted that in 2023, the PD and LGD models were re-estimated to follow the evolution of the regulatory models developed for the purposes of the 2024 Model Change, appropriately adjusted to reflect the current conditions of the economic cycle. In detail, the re-estimation for the PD models involved the updating of the time series with the implementation of the evidence of the default rates observed in the first nine months of 2023, for the LGD models the update included reducing the length of the time series to better capture the higher loss rates observed in recent years. For further details on the model updates, please refer to the information provided in the section Credit Risk – paragraph “2.2 Management, measurement and control systems” of Part E of the Notes to the consolidated financial statements.

The re-estimation in question entailed higher adjustments for a total of EUR 204.2 mln, mainly attributable to the LGD parameter, with stage 2 exposures remaining largely unchanged.

Management overlays

With regard to management overlay for sector vulnerabilities the Group has decided to operate, for the purposes of the consolidated financial statements as at 31 December 2023, in substantial continuity of methodology with respect to what was done for the purposes of the 2022 financial statements. It should be remembered that, as at 31 December 2022, “post-model adjustments” had been applied to the results of the ECL estimation methods, within the framework of flexibility allowed by IFRS 9 and in light of the greater prudence necessary in relation to significant risk deriving from the current and forward-looking contexts. The management overlays were necessary to remedy some limitation of models, to capture the uncertainties and risks inherent in the forecast as well as the observed/predicted deviation from long-term series.



As at 31 December 2023, the re-estimates in the PD and LGD models made it possible to factor in the models some phenomena that had been handled as at 31 December 2022 through management overlay, such as the dependence on rates in the PD models dedicated to retail mortgages and more conservative LGD estimates due to the recent context and the constant disposal program. Compared to 31 December 2022, the overlays deriving from back testing analyses on loans are not necessary and the overlay on variable rate mortgages is significantly reduced.

In addition, the update of the macroeconomic scenarios as at November 2023 and the conservatism of the baseline scenario approved by the Bank with respect to the main institutions, made it possible to factor in the models the tensions on energy prices following the conflict between Russia and Ukraine and in Palestine, making the overlays associated with energy-intensive sectors and the use of asymmetric macroeconomic scenarios no longer necessary.

Starting from the fourth quarter of 2023, the Bank has included climate-related factors in the credit risk estimates, integrating the macroeconomic indicators observed on the “Net Zero 2050” climate scenario, provided by an external provider NGFS, into the baseline macroeconomic model adopted by the Group. The latter, characterised by a proactive behaviour of the economic system with respect to the energy transition, would entail a global economic contraction due to the huge costs incurred to achieve the set-out objective.

In addition, taking into account the current market context characterised by high interest rates and consequent refinancing risks for customers, especially in sectors such as real estate, the Group decided to revise downwards the property price index forecast in the “severe but plausible” scenario issued by the external provider.

Finally, taking into account the current market context characterised by high interest rates that could have a significant impact on the real estate market, the Bank decided to factor this risk by further revising downwards the property price index forecast in the “severe but plausible” scenario issued by the external provider.

Lastly, starting from the third quarter of 2023, the Group applied an adjustment to exposures classified in higher risk classes within the internal early warning system, in order to take into account the probability that customers may be affected by financial distress, also considering the continuing uncertainty in macroeconomic forecasts.

Overall, the management overlays used for accounting valuations as at 31 December 2023 resulted in greater adjustments on the cost of credit for approximately EUR 53.7 mln (EUR 89.8 mln as at 31 December 2022) and higher exposures classified in stage 2 for approximately EUR 375.9 mln (EUR 73.1 mln as at 31 December 2022).

For further information on the assumptions and hypotheses used in the estimation, as well as for more details on the sectoral impacts of the above-mentioned overlays, and for the sensitivity analysis with respect to alternative scenarios, please refer to “Part E - Information on risks and hedging policies, section 2 - Risks of prudential consolidation, 1.1 Credit risk, paragraph 2.3 Methods for measuring expected losses” in the Notes to the Consolidated financial statements.

Inclusion of government guarantees

Finally, with regard to the treatment of government guarantees, it should be noted that, in accordance with the guidance of the Authorities, these did not impact the calculation of the SICR - since the latter does not depend on the guarantees, but on the creditworthiness, which remains specific to the counterparty; they have instead affected the estimate of the ECL, through the use of an LGD parameter that takes into account the government mitigation measures, introduced and expanded with the “Cura Italia” and “Liquidità” decrees. This approach derives from the assessment carried out on the characteristics of the guarantees that allow them to be considered as an integral part of the contract pursuant to IFRS 9.

Disclosure on public funding pursuant to art. 1, paragraph 125 of Italian Law no. 124 dated 4 August 2017 (“Annual Law for the Market and Competition”)

It should be noted that as at the reporting date of these financial statements, in the National Register of State Aid, the grants received by the Bank for the year 2023, mainly for training activities, totalling EUR 2.9 mln, are posted and publicly available in the Transparency section “Individual Aid”. In this regard, it should also be noted that, in line with the provisions of the law, the economic benefits below the threshold of EUR 10,000 are not reported (threshold referring to the total amount of benefits received by the Bank from the same authority in the financial year 2023 in a single deed or in several deeds).

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



A.3 Information on portfolio transfers

Tables on transfers between portfolios of financial assets are not provided, as in 2023, like in previous years, as the Bank did not carry out any reclassification transactions following the change in the business model, that is, in the way in which the Bank manages financial instruments.

Qualitative Information

IFRS 13 defines fair value as the price that would be received for the sale of an asset or that would be paid for the transfer of a liability in a regular transaction among market operators operating on a going concern basis (that is, not in a forced liquidation or a sale below cost) at the conditions prevailing on the valuation date in the main or most advantageous market (exit price). The Bank must measure the fair value of an asset or liability by adopting the assumptions that market participants would use in determining the price of the asset or liability, assuming that they act to best meet their own economic interests.

For the purposes of measuring financial and non-financial assets and liabilities at fair value, IFRS 13 defines a threefold hierarchy of fair value, based on the source and quality of the inputs used. 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 an active 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.

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) prices quoted for the instrument under analysis or for similar instruments on non-active markets, i.e. markets in which: (i) there are few transactions, (ii) the prices are not current or vary substantially over time and among the various market makers or (iii) 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.



For financial instruments, measured at fair value in the financial statements, the Bank has adopted a “Fair Value Policy”, which assigns the highest priority to prices listed on active markets (level 1) and the lowest priority to the use of unobservable inputs (level 3), being these more discretionary, in line with the fair value hierarchy represented above. Specifically, this policy defines:

- the rules for identifying market data, the selection/hierarchy of information sources and the price configurations to value the financial instruments contributed on active markets and classified under level 1 of the fair value hierarchy (“Mark to Market Approach”);
- valuation techniques and related input parameters in all cases in which the “Mark to Market Approach” cannot be used, and it is therefore necessary to apply the “Market to Model Approach”.

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 classified in its entirety in a single level; therefore, if inputs belonging to different levels are used in the valuation technique, the entire valuation must be classified in correspondence with the level of the hierarchy in which the lowest level input is classified, if it is considered significant for the determination of the fair value as a whole.

The following types of investments are normally considered as level 2:

- equities not listed on active markets, valued using the market multiples technique, or valued on the basis of actual transactions that occurred within a time frame reasonably close to the reference date;
- OTC derivative financial instruments, if the inputs of the pricing models, used to determine the fair value, are observable on the market or, if not observable, are considered such as not to significantly affect the measurement of fair value;
- third-party debt securities or own issue not listed on active markets whose inputs, including credit spreads, are obtained from market sources.

The following financial instruments are generally considered level 3:

- hedge funds characterised by low levels of liquidity, when the valuation/disinvestment of their assets is believed to require a series of assumptions and estimates to a significant extent. The fair value measurement is carried out on the basis of the adjusted NAV to take into account the low liquidity of the investment;
- alternative investment funds for which the discounted cash flow is used;
- private equity and real estate funds valued on the basis of the last available NAV, adjusted if necessary to take into account events not included in the valuation of the unit or to reflect a different valuation of the assets underlying the fund;
- equity securities for which no recent or comparable transactions can be observed, and valued on the basis of the equity or income model;
- debt securities, ABS and derivative transactions characterised by complex financial structures for which publicly unavailable sources are generally used;
- debt securities issued by parties in financial difficulty for which the “recovery rate” must be estimated;
- financial instruments represented by OTC derivatives for which the non-observable input parameters used by the pricing model are considered significant for the purposes of measuring the fair value;
- (performing and non-performing) medium/long-term loans valued on the basis of expected cash flows estimated with different models depending on the status of the counterparty and discounted using a market interest rate.

For information on the fair value of non-financial assets, attributable to property, plant and equipment represented by properties, please refer to the following paragraph.



A.4.1 Level 2 and 3 of fair value: measurement techniques and inputs used

Financial assets and liabilities measured at fair value

The following tables show, respectively, for Level 2 and 3 financial instruments, the accounting portfolio, a summary of the types of instruments in use by the Bank, and evidence of the related valuation techniques and the inputs used.

item	Fair value level 2 as at 31 12 2023							Types	Valuation techniques	Input used
	Financial assets held for trading	Other financial assets mandatorily measured at fair value	Financial assets measured at fair value through other comprehensive income	Hedging derivatives	Financial liabilities held for trading	Financial liabilities measured at fair value	Hedging derivatives			
Debt securities	290,364	-	520,213	X	-	111,325	X	Bonds	Discounted Cash Flow	Interest rate curves, CDS curve, Basi (yield), Inflation curves
								Structured bonds	Discounted Cash Flow	Interest rate curves, CDS curve, Basi (yield), Inflation curves + inputs necessary to measure optional component
								Bonds/notes	Market price	Market price
Equity instruments	119	-	10,530	X	X	X	X	Share/equity instruments	Market price	Market price, recent transactions, appraisals, manager reports
								Investments	Discounted cash flow	Share price, beta sector, free risk rate
								Investments	Net asset adjusted	Carrying Amount Asset/Liabilities
Financial derivatives	2,118,213	X	X	662,012	987,654	X	321,090	IRS/Asset/Currency Swaps	Discounted Cash Flow	Interest rate curves, CDS curves, Basi (yield) Inflation curve, Foreign exchange rates, rates correlation
								Equity swaps	Discounted Cash Flow	Share price, interest rate curve, Foreign exchange rate
								Forex Singlename Plain	Option Pricing Model	interest rate curve, Foreign exchange rate, Forex volatility
								Forex Singlename Exotic	Option Pricing Model	interest rate curve, Foreign exchange rate, Forex volatility (Surface)
								Equity Singlename Plain	Option Pricing Model	Curva dei tassi, prezzi azioni, Tassi di cambio, Volatilità Equity
								Equity Singlename Exotic	Option Pricing Model	Interest rate curve, share prices, Foreign exchange rate, Equity Volatility (surface), Parameters Models
								Equity Multiname Plain	Option Pricing Model	Interest rate curve, share prices, Foreign exchange rate, Equity Volatility, Quanto Correlations, Equity/Equity Correlations
								Equity Multiname Exotic	Option Pricing Model	Interest rate curve, share prices, Foreign exchange rate, Equity Volatility (surface), Parameters Models, Quanto Correlations, Equity/Equity correlations
								Plain rate	Option Pricing Model	Interest rate curve, Inflation Curve, bond prices, Foreign exchange rates, rate Volatility, rate Correlations
								Foreign currency transactions	Martek price*	Market prices Swap Point
Credit derivatives	-	X	X	-	92,020	X	-	Default swaps	Discounted Cash Flow	CDS Curve, Rate curve
Total assets	2,408,696	-	530,743	662,012	X	X	X			
Total liabilities	X	X	X	X	1,079,674	111,325	321,090			



Fair value level 3 as at 31 12 2023							
Items	Other financial assets mandatorily measured at fair value	Financial assets measured at fair value through other comprehensive income	Financial liabilities held for trading	Type	Valuation Techniques	Unobservable inputs	Range (weighted average)
Debt securities	58,826	-	-	Notes	Discounted Cash Flow	Discount rate	10.22%- 19.48%
				Participating financial instruments	Credit Model	Credit Data (LGD/PD)	0-17.9 €/mln
				Equity instruments	External pricing	Fair value asset	0 - 0.8 €/mln
Equity instruments	1,839	216,843	X	Investments	Discounted Cash Flow	Liquidity bases/Equity Risk Premium/Beta	20%/8%/0.4
				Investments	Cost/Net equity	fair value asset	0-12.4 €/mln
Units of UCITS	182,011	X	X	Closed-end Fund	Pricing esterno	Fair value asset	7.7 €/mln
				Real estate closed-end fund	External Pricing (management report)	Fair value asset	535 €/mln
				Alternative investment fund	Discounted Cash Flow	Discount rate	7.85%- 10.81%
				Private Equity fund	Nav Investor report	Management reports, Technical data sheet	0.29-16.45€/mln
Loans	123,236	-	X	Loans	Discounted Cash flow	NPE SPREAD	1.92% - 1.92%
				Loans	Discounted Cash Flow	LGD	0.36% - 60.85%
				Loans	Discounted Cash Flow	PD	0.07% - 41.74%
				Loans	Discounted Cash Flow	PE SPREAD	0.01% - 1.15%
Financial derivatives	X	X	2,868	IR/Asset/Currency Swaps	Discounted Cash Flow	Surrender Rate	No dynamics/stochastic volatility
Total assets	365,912	216,843	X				
Total liabilities	X	X	2,868				

The techniques and parameters for calculating the fair value, as well as the criteria for assigning the fair value hierarchy, are defined and formalised in the aforementioned “Fair value policy” adopted by the Bank. The reliability of fair value measurements is also ensured by the verification activities carried out by a Risk Management structure, independent of the Front Office units that hold the positions, which periodically reviews the list of pricing models to be used for the purposes of the Fair Value Policy. These models must represent market standards or best practices and the related calibration techniques must guarantee a result in line with valuations able to reflect “current market conditions”. Specifically, to correctly determine the fair value, for each product a pricing model is associated, generally accepted by the market and selected on the basis of the characteristics and market variables underlying the product. With particularly complex products or if the existing valuation model for products in use is deemed to be lacking or inadequate, an internal process is activated to supplement the current models. On the basis of this process, the Risk Management department carries out a first validation of the pricing models, which may be native to the Position Keeping system or be issued by a specific internal unit; this is followed by a stage in which the same unit ensures the reliability of the previously validated model.

In detail, the validation activity, carried out on a range of instruments identified above certain materiality thresholds, is aimed at verifying the theoretical robustness of the model, through an independent repricing of the price, a possible calibration of the parameters and a comparison with the prices of the counterparties.

Following the validation stage, an ongoing review is carried out to confirm the accuracy and alignment to the market of the pricing models used by the Bank, and appropriate changes are made, if necessary, to the models and the related underlying theoretical assumptions. To take into account the risk that the pricing models, even if



validated, may generate fair value values that are not directly comparable with market prices, an adjustment is made for “Model risk”, as described below.

Financial assets and liabilities measured at fair value on a recurring basis

Financial assets and liabilities measured at fair value on a recurring basis are represented by all financial instruments measured in the financial statements on the basis of the fair value criterion (items 20, 30, 50 of the balance sheet assets and items 20, 30, 40 of liabilities in the balance sheet). For these financial instruments, in the absence of directly observable prices on active markets, it is necessary to determine a fair value on the basis of the valuation approach described in the previous paragraph. The main valuation techniques adopted for each type of financial instrument are illustrated below.

Debt securities

The valuation of non-contributed securities (i.e. securities without official prices expressed by an active market) is carried out through the use of an appropriate credit spread, identified starting from contributed and liquid financial instruments with similar characteristics. The sources from which to draw this measure are as follows:

- contributed and liquid debt securities of the same issuer;
- credit default swap on the same reference entity;
- contributed and liquid securities issued by an issuer with the same rating and belonging to the same sector. In any case, the different seniority of the security to be priced in relation to the issuer's debt structure is taken into account.

Furthermore, for bonds not quoted on active markets, to take into account the higher premium requested by the market compared to a similar contributed security, an additional component, estimated on the basis of the bid/ask spread, is added to the “fair” credit spreads observed on the market.

Loans that do not pass the SPPI test

These are loans measured at fair value as per mandatory requirements 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., they do not pass the “SPPI test”), either by virtue of clauses originally envisaged in the contract or following subsequent amendments. The fair value is valued with the Discounted Cash Flow approach, which is applied in a different way depending on whether the loans are performing/non-performing:

- for performing loans, the fair value is determined on the basis of cash flows, appropriately adjusted for expected losses, based on the unobservable parameters PD and LGD. These flows are then discounted on the basis of a market interest rate, adjusted to take into account a premium deemed to express the risks and uncertainties. In the presence of implicit option components, which, for example, provide for the option of changing the interest rate, the fair value also takes into account the value of said components;
- for non-performing loans, the measurement of the fair value is based on directly or indirectly observable market parameters, which refer to risk factors found in the transfer of NPLs in order to obtain a market price, representative of the uncertainty of the collection process. In particular, cash flow forecasts are expressed by the analytical repayment plans that represent the information on the estimated loss rate on the position. The collection flows estimated in this way are discounted using a discount factor that is constructed starting from a spread representing the uncertainty of the collection process (unexpected loss) and any other residual risk; the discount rate is then calculated by adding this spread to the risk-free interest rate curve, without taking into account the contractual rate.

Unlisted equities

They are valued with reference to direct transactions on the same security or on similar securities observed over a period of time with respect to the valuation date, using the market multiples method of comparable companies and subordinate to financial, income and equity valuation methods.

Investments in UCITS

They are, as a rule, valued on the basis of NAVs or expected flows and/or business plans made available by the fund administrator or management company. If the NAV does not represent fair value, from the perspective of a market participant, the Bank may adopt certain adjustments/haircuts. These typically include private equity funds, alternative investment funds among which funds investing in non-performing loans, real estate funds, hedge funds.



In the specific case of alternative investment funds that invest in NPE loans, the Bank has estimated the unit value as the sum of the present values of the expected fund distributions (Discounted Cash Flows). The inputs used are as follows:

- cash flows related to net distributions to investors envisaged in the business plans/management accounts of their respective operations;
- discount rate between 7.85% and 10.81%, depending on the capital structure and the additional premium for the risk of each transaction.

Credit structured products

With reference to ABS (asset backed securities), when significant prices are not available, valuation techniques are used that take into account parameters that can be inferred from an active market (level 2 inputs) or must be estimated, if unobservable (level 3 inputs, if significant). In the first case, the cash flows are acquired from info providers or specialised platforms; the spreads are derived from the prices available on the market/info provider, analysing the performance of the underlying assets on the basis of the investor reports. If they are not available, the Bank uses valuation techniques aimed at recreating the contractual waterfall of the securitisations in order to estimate the potential recoveries of the outstanding notes.

Over the counter (OTC) derivatives

Interest rate, exchange rate, equity, inflation, commodity and credit derivatives, where not traded on regulated markets, are valued using appropriate valuation models, fed by input parameters (such as, for example, interest rate, exchange rate and volatility curves) observed on the market and subject to the monitoring processes described in the “Group Fair Value Policy”.

These models estimate the probability that a specific event will occur by incorporating assumptions such as the volatility of the estimates, the price of the underlying instrument and the expected rate of return.

In addition, for the purpose of measuring fair value, the aforementioned “Group Fair Value Policy” envisages that some “fair value adjustments” be considered with the objective of best reflecting the realization price of an actually possible market transaction. In particular, this relates to model risk, liquidity risk and counterparty risk set out below.

Model risk: this adjustment is made to take into account the risk that the pricing models, even if validated, may generate fair value values that are not directly observable or not immediately comparable with market prices. This is the case of pricing algorithms or types of pay-off that are not adequately widespread on the market or in the presence of models particularly sensitive to variables that are difficult to observe on the market.

Liquidity risk: this adjustment is made to take into account the extent of the “bid/ask spread”, i.e. the actual cost of disposing of a position in financial instruments in inefficient markets. The correction for the liquidity risk is greater for more structured products, due to the related hedging/disposal costs, and for valuation models that are not sufficiently established and of widespread use among operators, since this makes the valuations more uncertain.

Counterparty risk: adjustments to the market value of OTC derivatives are made in order to reflect:

- the risk of possible counterparty default - Credit Valuation Adjustment (CVA);
- the risk of non-fulfilment of the issuer’s contractual obligations towards a counterparty (“own credit risk”) - Debt Valuation Adjustment (DVA).

The Bank calculates the Credit/Debit Value Adjustment on all positions in OTC derivatives with non-collateralised institutional and commercial counterparties to include counterparty risk in the fair value measurement. The methodology is based on the calculation of expected operational loss linked to counterparty rating and estimated on a position’s duration, and is included in the exposure value via add-ons. The impact of the CVA as at 31 December 2023 amounted to EUR -3.3 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 credit worthiness (DVA). As at 31 December 2023, the DVA amounts to a total of EUR 9.3 mln.



Financial assets measured at fair value on a non-recurring basis

Financial assets and liabilities measured at amortised cost in the financial statements

For financial assets and liabilities recognised in the financial statements at amortised cost, classified, in the accounting categories of “Financial assets measured at amortised cost” (loans to banks and customers) and “Financial liabilities measured at amortised cost” (deposits from banks and customers and debt securities issued), the calculation of the fair value is relevant for information purposes only, in line with the provisions of the reference accounting standard IFRS 7. The criteria to calculate the fair value of performing and non-performing loans to banks and customers are the same adopted for the fair value valuation on a recurring basis of the loans that do not pass the SPPI test, to which reference is made. Exceptions to this rule are loans to central banks included in the “Loans to banks” portfolio for which the book value is considered a good approximation of the fair value as allowed by accounting standard IFRS 7, and is classified in level 2 of the fair value hierarchy. The same methodology and classification are used for the “Deposits from banks” and “Deposits from customers” portfolios.

For debt securities classified in the “Loans to banks or customers” or “Debt securities issued” portfolio, the fair value was determined through the use of prices contributed on active markets or through the use of valuation models, such as described in the paragraph “Assets and liabilities measured at fair value on a recurring basis” above.

With reference to the classification of loans to customers and banks within the fair value hierarchy, it should be noted that customers are classified in level 3 and banks in level 2, except in the case of non-performing exposures.

Non-financial assets measured at fair value on a recurring basis

For the Bank, non-financial assets measured at fair value on a recurring basis consist of its owned real estate assets.

Fair value of owned real estate assets

The Bank adopts the revaluation model for the measurement of the value of property assets for business use pursuant to IAS 16 and of the fair value for investment properties pursuant to IAS 40, for valuation subsequent to the initial recognition.

Real estate valuation methodology

The redetermination method requires that the assets for business use, whose fair value can be reliably measured, are recognised at a restated value, equal to their fair value at the date of the redetermination of value, net of depreciation and any losses for accumulated impairment.

For properties held for investment purposes, the Group has chosen the fair value measurement method, according to which, after initial recognition, all investment properties are measured at fair value.

The fair value of the properties, whether for business or investment use, is determined through the use of specific appraisals prepared by independent qualified companies operating in the specific sector able to provide property valuations on the basis of the RICS Valuation standards. These standards ensure that:

- the fair value is determined consistently with the indications of international accounting standard IFRS 13, that is it reflects the estimated amount for which an asset or liability is sold or purchased, on the valuation date, by a seller and a buyer both willing, and not linked by a special relationship, at competitive conditions, after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion;
- the experts have professional, ethical and independence requirements in line with the provisions of international and European standards.

For properties of a significant value, i.e. with a book value of more than EUR 8 mln, the appraisals are carried out in “full” mode, i.e. with an inspection of the property as well as a detailed analysis of the available documentation. For the remaining properties it is however possible to make use “full” appraisal based on cluster and thresholds internally established, or alternatively, to make use of “desktop” appraisals, which are carried out without onsite inspection, only by reviewing the documentation. The Bank has decided to carry out “full” appraisals on at least 50% of the overall book value of the properties.



The valuation methodologies applied by the appraiser are aligned with international IVS (International Valuation Standards) practices and with what is set forth in the Red Book of the Royal Institute of Chartered Surveyors (RICS). They refer to the following situations:

- a) Discounted cash flow (DCF) method;
- b) Market comparison approach (MCA);
- c) Transformation method with DCF analysis.

The discounted cash flow method is based on the net cash flows that can be generated within a period of time and is the best estimation approach to adequately represent the market value of assets likely to be acquired as properties, both for direct use (instrumental use), and for investment purposes, as a source of ongoing income from rents. The assumption underlying the cash flow approach is that a rational buyer is not willing to pay to buy the asset a price higher than the current value of the economic benefits that the asset will provide in the future. The value of the asset, therefore, is a function of the economic benefits that will be generated by it. The Market Value is calculated as the sum of the discounted net revenues and the discounted net sales value at the valuation date. The net revenues are calculated based on the gross revenues less the operating costs related to the property. The gross revenues are calculated by indexing the rents received for the leased portions, or the market rents for the vacant portions, considering for the calculation of the DCF a time period between 10 and 20 years according to the intended use of the property and the residual duration of outstanding lease contracts. The net sales value is obtained by capitalising in perpetuity the operating income for the last period of the DCF using a capitalization rate (cap rate) in line with average market yields, from which the sales commission is then deducted. After finding the annual net revenues and the net sales value, the discounted values at the beginning of the first period are calculated by using an appropriate discount rate, suitable for each individual property. The main input data are: i) revenues (contractual rents, market rents); ii) vacancy and take up period, contractual step-up, etc.; iii) costs (administration, property tax, insurance premium, tenant improvements, lease and sales commission, etc.) and iv) interest rates (WACC, exit cap rate).

The market comparison approach provides an estimate of the value of the asset through the comparison with properties recently sold or currently on sale on the market that are comparable in terms of type, construction and location. The value of the property is therefore found by taking into account the sale prices or rents, updated as at the valuation date and obtained from an in-depth market survey, and then making specific adjustments as deemed appropriate given the intrinsic and extrinsic characteristics of the property in question, as well as any other factor deemed relevant, thus reducing the risk that these price do not reflect the latest macroeconomic conditions. The market comparison approach is usually recommended for residential properties for which it is easy to find transactions on comparable assets, therefore taking into account the type of real estate properties that constitutes the Banks' real estate assets, it was marginally used.

The transformation method with DCF analysis is used in the case of assets that can be transformed or are already being transformed. The value is given by the difference between the most likely market value of the transformed asset and the sum of all the most likely costs of the factors involved in the transformation of the asset itself. The transformation method is often used to express an opinion on the economic benefit of initiatives to renovate existing assets, but it can also be used for an appraisal aimed at providing an estimate value valid for the majority of market operators. This estimation method is based on the discounting, at the valuation date, of the cash flows generated by the real estate transaction over a time period corresponding to its duration, converting the cash flows allocated at the time of their generation into the Net Present Value (NPV) of the real estate transaction through a financial discounting procedure. The model simulates the assumptions of a typical investor, which aims at receiving a satisfactory economic return on the investment. In particular, the model is articulated in a cash flow scheme with income (revenues) and expenses (costs) relating to the real estate transformation project. Expenses include costs for construction, demolition, urbanisation, design, site management and other costs; the income includes sales made for each sector of intended use (residential, industrial, workshops, sales, tertiary and services). The financial model does not consider VAT and other taxes. The main input data are i) the revenues generated from the sale of buildings built or renovated; ii) the costs (construction costs, urbanisation costs, planning and site management costs, sales commissions, etc., and iii) interest rates (WACC).

The valuation approach is defined considering for each property:

- the breakdown in terms of property unit;
- the current intended use of each property, assuming this represents the highest and best use, and considering alternative uses of the properties where this corresponds to market expectations;
- the nature of the property, whether for business use, investment use, mixed.



Depending on the intended use, the occupation status and the nature of the asset, the valuation method deemed most appropriate by the appraiser is applied for each property unit and the value is divided between business use and investment portions.

The properties are valued individually at the level of the single property without considering any discount or premium that can be negotiated in a commercial negotiation phase if all, or part of the portfolio, is sold en bloc, both by lots and entirely.

The valuation of the properties is significantly based on estimates that are characterised in nature by elements of judgement and subjectivity, the Bank's entire property assets are classified at level 3 in the fair value hierarchy.

Valuation frequency

For investment property it is necessary to recalculate the fair value, on an annual basis at least, in accordance with IAS 40.

For property for business use, IAS 16 provides that value re-determinations must be carried out regularly in order to ensure that the book value does not differ significantly from the fair value at the reporting date. The Bank has decided to carry out the revaluation, in the same way as for IAS 40 properties, at least once a year. On the basis of the aforementioned rules, as at 31 December 2023, the Bank updated the appraisals for all real estate assets.

Sensitivity analysis of non-financial instruments

Like financial instruments, non-financial assets and liabilities measured at level 3 fair value are also subjected to sensitivity analysis for which, based on the valuation model used to determine fair value, execution is possible and whose results are significant.

It should be noted that, the sensitivity analysis was performed identifying the most significant variables within the valuation model used for the different classes of properties, represented by the discounted cash flow method. In particular, market fees for properties used in the business, and the "exit value" for properties held for investment purposes. Considering a change equal to +/- 5% of the aforementioned variables, the analysis showed an average deviation in the fair value of the properties of approximately -5.2% and +4.8%.

A.4.2 Measurement processes and sensitivity

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

The column "Other financial assets mandatorily measured at fair value" in the category "Debt securities" measured with the Discounted Cash Flow method includes both the mezzanine and the junior tranches referring to the securitisation of a portfolio of loans classified as bad loans called "Siena NPL" for EUR 36.9 mln. The change in the discount rate (+/-1%) and forecast distributions (+/-10%) would result in a range of values of EUR 34.6 – 36.5 mln and EUR 42.6 – 27.7 mln respectively.

Also worth mentioning in this category are approximately EUR 19.2 mln relating to some equity investments acquired by the Bank under credit restructuring agreements which the sensitivity analysis was not carried out as the unit value of the individual exposures is below the minimum materiality threshold established by the Bank.

The "Other financial assets mandatorily measured at fair value" column also includes loans (EUR 123,2 mln) that are mandatorily measured at fair value. The unobservable parameters are Probability of Default (PD), Loss Given Default (LGD) and the different spreads for performing and non-performing assets. The change in these parameters, of 10%, 5%, and 1%, respectively, would have an impact on fair value of approximately EUR -5 mln.

The majority of the UCITS units refers, for EUR 116.3 mln, to units of funds received in exchange for the sale of non-performing loans (Back2bonis, IDEA CCR I, II and Nuova Finanza, Clessidra and Efesto). The change in the discount rate (+/-1%) and forecasted distributions (+/-10%) would result in the following range of values: EUR 113.9 - 118.8 mln and EUR 127.9 - 104.5 mln respectively.

The category of units of UCITS also contains the total of contributions, made from June 2016, to the Italia Recovery Fund (formerly Atlante due) for a book value of EUR 7.7 mln calculated on the basis of the latest available NAV.

Lastly, the UCITS category also includes private equity funds and closed-end real estate funds for EUR 58.0 mln for which it was not possible to carry out any quantitative analysis of the sensitivity of the fair value with respect to the change in unobservable inputs, as the fair value is the result of a model whose inputs are specific to the entity being measured and for which the information necessary for a sensitivity analysis is not available.



The “Financial assets measured at fair value through other comprehensive income” accounting portfolio includes the equity investment in Bank of Italy (EUR 187.5 mln), measured using the Discounted Cash Flow method. The equity investment was measured with the methodology identified by the Committee of Experts in the document “Revaluation of shareholdings in the Bank of Italy”. This document not only details the valuation techniques adopted to reach the end result, but identified the following entity-specific parameters: the market beta, equity risk premium, and the cash flow base. The valuation of that equity investment is also confirmed in market transactions carried out in recent years by certain banks. The range of possible values that can be assigned to these parameters cause the following changes in value: roughly EUR -11 mln for every 100 bps increase in the equity risk premium, roughly EUR -18 mln for every 10 p.p. increase in the market beta, and roughly EUR -18 mln for every 10 p.p. increase in the cash flow base.

This category also includes equity securities representing all equity investments designated at fair value that could not be measured according to a market-based model. These positions amount to approximately EUR 29.8 mln. For these positions, a sensitivity analysis was not carried out for the same reasons indicated above with reference to UCITS.

Financial liabilities held for trading include financial derivatives (approximately EUR 2.9 mln) included for the correct management of the lapse risk inherent in commission flows deriving from the placement of certain unit-linked policies. For these positions no sensitivity analysis was carried out as they are not considered material by the Bank.

4.3 Fair value hierarchy

For the purposes of completing the disclosure on transfers between levels provided in paragraphs A.4.5.1, A.4.5.2 and A.4.5.3 below, it should be noted that, for securities held at 31 December 2023 and which had a different fair value level with respect to the one assigned at 1 January 2023, it was assumed that the transfer between the levels took place with reference to the balances held at the beginning of the reference period.

A.4.4 Other information

With reference to par. 93 letter (i) of IFRS 13, the Bank does not hold any non-financial assets measured at fair value whose current use does not represent its best possible use.

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



Quantitative Information

A.4.5 Fair value hierarchy

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

Asset and liabilities measured at fair value	31 12 2023				31 12 2022			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
1. Financial assets measured at fair value through profit or loss:	3,525,434	2,408,696	365,912	6,300,042	155	646,943	320,937	968,035
a) Financial asset held for trading	3,525,246	2,408,696	-	5,933,942	43	597,597	-	597,640
c) other financial assets mandatorily measured at fair value	188	-	365,912	366,100	112	49,346	320,937	370,395
2. Financial assets measured at fair value through other comprehensive income	1,704,369	530,743	216,843	2,451,955	3,374,482	535,144	223,733	4,133,359
3. Hedging derivative	-	662,012	-	662,012	-	996,144	-	996,144
4. Property, plant and equipment	-	-	1,761,622	1,761,621	-	-	1,818,444	1,818,444
Total assets	5,229,803	3,601,451	2,344,377	11,175,630	3,374,637	2,178,230	2,363,114	7,915,981
1. Financial liabilities held for trading	1,823,197	1,079,675	2,868	2,905,740	-	581,276	-	581,276
2. Financial liabilities designated at fair value	-	111,325	-	111,325	-	124,289	-	124,289
3. Hedging derivative	-	321,090	-	321,090	-	301,491	-	301,491
Total liabilities	1,823,197	1,512,090	2,868	3,338,155	-	1,007,056	-	1,007,056

For information on financial instruments classified in level 3, please refer to the above.

The fair value of some financial assets, particularly the bonds for approx. EUR 5.6 mln, worsened during the financial 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.

With reference to the financial instruments that recorded an improvement in fair value level, moving from level 2 to level 1 of the hierarchy, it should be noted that this trend affected bonds measured at fair value for approximately EUR 20.8 mln. The change in the fair value level during the financial year is essentially linked to the improvement in the securities' liquidity conditions (measured in terms of bid-ask spread of the listed price), which allowed the level transfer in accordance with the Group's policy on the valuation of financial instruments.

With reference to the UCITS units valued on the basis of the NAV communicated by the manager, the assessments carried out by the competent functions on the assets underlying the funds themselves resulted, in accordance with the provisions of the group policy on valuation of financial instruments, in a decline from level 2 to level 3 for approximately EUR 53.1 mln.



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

31 12 2023

	Financial assets measured at fair value through profit or loss				Financial assets measured at fair value through other comprehensive income	Property, plant and equipment
	Total	of which: a) financial assets held for trading	of which: b) financial asset measured at fair value	of which: c) financial assets mandatorily measured at fair value		
1. Opening balance	320,937	-	-	320,937	223,733	1,818,443
2. Increases	180,936	-	-	180,936	1,431	89,128
2.1 Purchase	-	-	-	-	-	-
2.2 Profit charged to:	19,996	-	-	19,996	246	11,346
2.2.1 Profit and Loss	19,996	-	-	19,996	-	4,092
- of which capital gains	12,471	-	-	12,471	-	4,092
2.2.2 Equity	-	X	X	-	246	7,254
2.3 Transfers from other levels	53,059	-	-	53,059	-	-
2.4 Other increases	107,881	-	-	107,881	1,185	77,782
3. Decreases	135,961	-	-	135,961	8,321	145,949
3.1 Sales	1,563	-	-	1,563	3,473	805
3.2 Repayments	101,857	-	-	101,857	-	-
3.3 Losses charged to:	12,919	-	-	12,919	2,859	93,335
3.3.1 Profit and Loss	12,919	-	-	12,919	-	57,029
- of which capital losses	10,910	-	-	10,910	-	57,029
3.3.2 Equity	-	X	X	-	2,859	36,306
3.4 Transfers to other levels	-	-	-	-	-	-
3.5 Other decreases	19,622	-	-	19,622	1,989	51,809
4. Closing balance	365,912	-	-	365,912	216,843	1,761,622

Following are the most significant amounts reported in the column “Other financial assets mandatorily measured at fair value” under item:

- “2.2.1 Profits charged to the income statement” of approximately EUR 20.0 mln refer for EUR 7.1 mln to realised gains from the redemption of certain notes of securitisation transactions in which the Bank participate. Approximately EUR 12.5 mln are also included as capital gains from valuation relating mainly to revaluations of loans (EUR 1.8 mln), and some UCITS units (EUR 8.7 mln);
- “2.3 Transfers from other levels” of EUR 53.1 mln are attributable to UCITS units (valued on the basis of the NAV) that were downgraded from level 2 to level 3;
- “2.4 Other increases” equal to EUR 107.9 mln include approximately EUR 21.3 mln in positions that during the year were reclassified from the loan portfolio at amortised cost to the portfolio of other assets measured at fair value as per mandatory requirements due to substantial credit changes not consistent with the SPPI test, as well as new disbursements; This item also includes EUR 80.5 mln referring to financial instruments acquired by the Bank following the merger by incorporation of the subsidiaries MPS Capital Services Banca per le Imprese S.p.A. and MPS Leasing & Factoring S.p.A. with accounting effectiveness date of 1 January 2023;
- “3.1 Sales”, equal to EUR 1.6 mln, refer to the sale of some SFPs issued in connection with composition proceedings in which the Bank participated;
- “3.2 Repayments” for EUR 101.8 mln include approximately EUR 57.9 mln for the partial redemption of securitisation notes in which the Bank took part, around EUR 22.9 mln for the partial repayment of UCITS and some equity financial instruments and lastly, EUR 21.0 mln for the repayments on credit positions;
- “3.3.1 Losses charged to the income statement” equal to EUR 12.9 mln are attributable for EUR 10.9 mln to write-downs carried out during the year, of which: EUR 2.3 mln to non-performing loans, EUR 3.9 mln to the Siena NPL securitisation transaction and EUR 4.7 mln can be referred to write-downs of UCITS units held by the Bank;
- “3.5 Other decreases” for approximately EUR 19.6 mln refer to credit positions reclassified in the portfolio at amortised cost following the termination of previous contractual clauses not consistent with the SPPI test that had led to their classification as others assets mandatorily measured at fair value.

Property, plant and equipment measured at fair value on a recurring basis consisted of property assets for business and for investment use. The main amounts reported are shown below:



- “2.2.1 Profit charged to the income statement of which capital gains” amounting to approximately EUR 4.1 mln, refer for EUR 2.8 mln to write-backs on properties classified under IAS 16 that were previously written-down in the Income Statement, and for EUR 1.3 mln to revaluations of properties classified under IAS 40 following appraisals carried out as at 31 December 2023;
- “2.2.2 Equity”, equal to approximately EUR 7.2 mln, refers entirely to revaluations carried out in 2023 on properties classified under IAS 16;
- “2.4 Other increases” of approximately EUR 77.8 mln refers to EUR 25.5 mln for improvements and incremental expenses and EUR 44.4 mln for properties resulting from mergers;
- “3.1-Sales” in the amount of about EUR 0.8 mln refer to the sale of some IAS 40-listed properties finalised during the year;
- “3.3.1 Losses charged to the income statement - of which capital losses” amounted to approximately EUR 57.0 mln, refer for EUR 26.4 mln and EUR 30.6 mln related to properties classified under IAS 40 and 16 respectively;
- “3.3.2 Losses charged to equity” equal to approximately EUR 36.3 mln refer entirely to write-downs made on properties classified under IAS 16 subject to a previous revaluation recognised in the OCI reserve;
- “3.5 Other decreases” equal to approximately EUR 51.8 mln mainly refer to the depreciation charge related to properties classified under IAS 16 in the amount of EUR 27.3 mln and to properties transferred during the year to fixed assets held for disposal for EUR 12.4 mln.

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

31 12 2023

	Financial liabilities held for trading	Financial liabilities designated at fair value	Hedging derivatives
1. Opening balance	-	-	-
2. Increases	6,069	-	-
2.1 Issues	-	-	-
2.2 Losses posted to	2,038	-	-
2.2.1 Profit and Loss	2,038	-	-
- of which capital losses	-	-	-
2.2.2 Equity	X	-	X
2.3 Transfers from other levels	-	-	-
2.4 Other increases	4,031	-	-
3. Decreases	3,201	-	-
3.1 Redemptions	-	-	-
3.2 Repurchases	-	-	-
3.3 Profit posted to:	3,201	-	-
3.3.1 Profit and Loss	3,201	-	-
- of which capital gains	1,163	-	-
3.3.2 Equity	X	-	X
3.4 Transfers from other levels	-	-	-
3.5 Other decreases	-	-	-
4. Closing balance	2,868	-	-

Financial liabilities held for trading at level 3 refer entirely to financial derivatives held for trading acquired by the Bank with the merger of the subsidiary MPS Capital Services Banca per le Imprese S.p.A., shown under item “other increases”.



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

Financial asset/liabilities not measured at fair value or measured at fair value on a non-recurring basis	31 12 2023					31 12 2022				
	Book value	Level 1	Level 2	Level 3	Total Fair value	Book value	Level 1	Level 2	Level 3	Total Fair value
1. Financial assets measured at amortised costs	91,248,148	8,259,192	11,614,928	70,998,153	90,872,273	89,007,549	6,621,149	19,155,051	61,088,710	86,864,910
3. Non-current assets held for sale and disposal groups	76,232	-	-	76,232	76,232	65,497	-	-	65,497	65,497
Total assets	91,324,380	8,259,192	11,614,928	71,074,385	90,948,505	89,073,046	6,621,149	19,155,051	61,154,207	86,930,407
1. Financial liabilities measured at amortised costs	104,702,026	8,734,996	96,123,919	-	104,858,915	102,822,301	4,257,885	98,277,004	-	102,534,889
4. Liabilities associated to disposal groups held for sale	-	-	-	-	-	-	-	-	-	-
Total liabilities	104,702,026	8,734,996	96,123,919	-	104,858,915	102,822,301	4,257,885	98,277,004	-	102,534,889

For details of the valuation criteria for assets and liabilities measured at fair value on a non-recurring basis, reference should be made to the information provided in the corresponding qualitative section.

In regard to assets under disposal, only the assets measured at fair value or at fair value less disposal costs were indicated.

A.5 Information on “day one profit/loss”

The Bank did not recognise “day one profits/losses” on financial instruments pursuant to B.5.1.2A of IFRS 9; therefore, no disclosure is provided pursuant to paragraph 28 of IFRS 7 and other related IAS/IFRS paragraphs.



Part B – Information on the balance sheet

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ASSETS

Section 1 - Cash and cash equivalents - Item 10

1.1 Cash and cash equivalents: breakdown

	Total 31 12 2023	Total 31 12 2022
a) Cash	704,869	692,136
b) Demand deposits with Central banks	11,277,937	9,916,376
c) Current accounts and demand deposits with banks	1,025,183	1,984,982
Total	13,007,989	12,593,494

The amount of approximately EUR 11.277,9 mln recorded in line b) Current accounts and sight deposits with Central Banks refers almost entirely to two sight deposits with the ECB. This started in September 2022 following the monetary policy decision of 8 September 2022 in which the Governing Council of the ECB, in light of the above-zero increase in the central bank deposit rate, suspended the two-tier system for the remuneration of excess reserves.

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



Section 2 - Financial assets designated at fair value through profit or loss - Item 20

2.1 Financial assets held for trading: breakdown

Voci/Valori	Total 31 12 2023				Total 31 12 2022			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
A. Balance-sheet assets								
1. Debt securities	3,332,506	290,364	-	3,622,870	-	17	-	17
1.1 Structured securities	6,398	52,425	-	58,823	-	-	-	-
1.2 Other debt securities	3,326,108	237,939	-	3,564,047	-	17	-	17
2. Equity instruments	83,546	119	-	83,665	40	2	-	42
3. Units of UCITS	104,028	-	-	104,028	2	-	-	2
4. Loans	-	-	-	-	-	-	-	-
4.1 Repurchase agreements	-	-	-	-	-	-	-	-
4.2 Others	-	-	-	-	-	-	-	-
Total (A)	3,520,080	290,483	-	3,810,563	42	19	-	61
B. Derivatives								
1. Financial derivatives:	5,166	2,118,213	-	2,123,379	0	593,982	-	593,982
1.1 held for trading	5,166	2,051,802	-	2,056,968	0	528,776	-	528,776
1.2 fair value option	-	66,411	-	66,411	-	65,206	-	65,206
1.3 Others	-	-	-	-	-	-	-	-
2. Credit derivatives:	-	-	-	-	-	3,597	-	3,597
2.1 held for trading	-	-	-	-	-	3,597	-	3,597
2.2 fair value option	-	-	-	-	-	-	-	-
2.3 Others	-	-	-	-	-	-	-	-
Total (B)	5,166	2,118,213	-	2,123,379	-	597,579	-	597,579
Total (A+B)	3,525,246	2,408,696	-	5,933,942	42	597,598	-	597,640

The criteria adopted for classification of financial instruments in the three levels of the “fair value hierarchy” are described in Section A.4, “Information on fair value” of Part A, “Accounting policies” of the Notes to the Financial Statements, which should therefore be referred to.

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 repurchase agreements and securities lending transactions carried out on proprietary securities posted to the trading book.

The amount of EUR 237.9 mln, recognised in line “1.2 Other debt securities”, in the level 2 column, includes senior and mezzanine exposures assumed by the Bank with reference to third-party securitisation transactions amounting to EUR 23.3 mln and EUR 12.3 mln respectively.

The increase recorded among the derivative instruments shown in line “B.1-1.1 - trading” is attributable to transactions in derivatives acquired following the merger by incorporation of the subsidiary MPS Capital Services Banca per le Imprese S.p.A. (hereinafter MPSCS).

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

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



2.1 a Breakdown of debt securities: structured securities

Structured debt securities	Total 31 12 2023	Total 31 12 2022
Index Linked	19,510	-
Credit linked notes	7,245	-
Cap Floater	26,640	-
Reverse Floater	5,428	-
Total	58,823	-

The table adds details to line “A.1.1 Structured securities” of table 2.1 above. As at 31 December 2023, the amount of structured debt securities stood at EUR 58.8 mln (no security as at 31 December 2022). It should be noted that the portfolio in question was fully acquired by the Bank following the merger by incorporation of MPSCS.

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

Items/Amounts	Total 31 12 2023	Total 31 12 2022
A. Balance sheet assets		
1. Debt securities	3,622,870	17
a) Central banks	-	-
b) Public entities	3,197,425	1
c) Banks	181,166	-
d) Other financial companies	183,410	16
<i>of which: insurance companies</i>	<i>9,055</i>	-
e) Non-financial companies	60,869	-
2. Equity instruments	83,665	42
a) Banks	1,875	-
b) Other financial companies	36,919	2
<i>of which: insurance companies</i>	<i>36,734</i>	-
c) Non-financial companies	44,871	40
d) Other issuers:	-	-
3. Units of UCITS	104,028	2
4. Loans	-	-
Total (A)	3,810,563	61
B. Derivatives		
a) Central counterparties	-	-
b) Others	2,123,379	597,579
Total (B)	2,123,379	597,579
Total (A+B)	5,933,942	597,640

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

As for derivatives, it should be noted that the positive fair value of derivatives with customers includes approx. EUR 48.7 mln from balanced trading aimed at providing financial protection to customers of the Bank's network. The remaining amount was generated from transactions with financial market participants classified as customers pursuant to the above classification criteria set by the Bank of Italy.

The following table adds details to line “A.3. Units of UCITS” of table 2.2 above.



Categories/Amounts	Total	Total
	31 12 2023	31 12 2022
Equity	6,156	2
Exchange Traded Funds (ETF)	97,872	-
Total	104,028	2

The UCITS units in Exchange traded funds were acquired by the Bank following the merger by incorporation of MPSCS.

2.3 Financial assets measured at fair value: breakdown

2.4 Financial assets measured at fair value: breakdown by debtor/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 mandatorily measured at fair value: breakdown

Items	Total 31 12 2023				Total 31 12 2022			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
1. Debt securities	-	-	58,826	58,826	-	-	80,448	80,448
1.1 Structured securities	-	-	-	-	-	-	-	-
1.2 Other debt securities	-	-	58,826	58,826	-	-	80,448	80,448
2. Equity instruments	188	-	1,839	2,027	112	-	361	473
3. Units of UCITS	-	-	182,011	182,011	-	49,346	101,758	151,104
4. Loans	-	-	123,236	123,236	-	-	138,370	138,370
4.1 Repurchase agreements	-	-	-	-	-	-	-	-
4.2 Others	-	-	123,236	123,236	-	-	138,370	138,370
Total	188	-	365,912	366,100	112	49,346	320,937	370,395

Line 1.2 “Other debt securities” level 3 includes EUR 18.6 mln (EUR 21.9 mln as at 31 December 2022) attributable to GFS issued as part of the composition with creditors in which the Bank participated. Also included are EUR 37.5 mln (EUR 58.5 mln as at 31 December 2022) of exposures attributable, for EUR 37.0 mln, to the securitisation of a bad loans portfolio of the MPS Group, of which EUR 36.4 mln (EUR 26.7 mln as at 31 December 2022) referable to the mezzanine tranche and EUR 0.6 mln (EUR 0.4 mln as at 31 December 2022) relating to the junior tranche, and EUR 0.5 mln (EUR 31.4 mln as at 31 December 2022) relating to the junior tranche of a securitisation transaction of non-performing loans also originated by third-party banks, the decrease of which is attributable to the repayments made by the special purpose vehicle during the financial year 2023.

Line 3 “Units of UCITS” includes, in correspondence with level 3, UCITS units acquired in exchange for the sale of NPE loans for EUR 116.3 mln (EUR 93.0 mln as at 31 December 2022) and the units in the Fondo Atlante for EUR 7.7 mln (EUR 8.4 mln as at 31 December 2022).

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 mandatorily measured at fair value: breakdown by debtor/issuer

Voci/Valori	Total 31 12 2023	Total 31 12 2022
1. Equity instruments	2,027	473
<i>of which: banks</i>	-	-
<i>of which: other financial companies</i>	1,133	343
<i>of which: non-financial companies</i>	894	130
2. Debt securities	58,826	80,448
a) Central Banks	-	-
b) Public Entities	-	-
c) Banks	-	-
d) Other financial companies	40,177	58,570
<i>of which: insurance companies</i>	-	-
e) Non-financial companies	18,649	21,878
3. Units of UCITS	182,011	151,104
4. Loans	123,236	138,370
a) Central Banks	-	-
b) Public Entities	-	-
c) Banks	-	-
d) Other financial companies	-	-
<i>of which: insurance companies</i>	-	-
e) Non-financial companies	106,674	120,051
f) Families	16,562	18,319
Total	366,100	370,395

The main cumulative losses relating to equity securities of evidently poor credit quality referring to previous financial years are Compagnia Investimento e Sviluppo (EUR 3.8 mln), Newcolle S.r.l. (EUR 2.3 mln), Porto industriale Livorno (EUR 1.9 mln). During the course of the year, the Bank did not carry out further write-downs on equity instruments of clearly poor credit quality.

The breakdown by main category of UCITS is provided below.

Categories/Amounts	Total 31 12 2023	Total 31 12 2022
Hedge Funds	23	24
Private Equity	57,510	57,801
Real estate	8,216	273
Credit recovery funds	116,262	93,006
Total	182,011	151,104

For the disclosure on mutual funds acquired as part of the transfer of loans included in the previous table under “NPE loans”, please refer to the specific paragraph in Part E of these Notes to the Consolidated Financial Statements (Subsection E “Transfers” point “C. Financial assets sold and fully derecognised”).



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

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

Items/Amounts	Total 31 12 2023				Total 31 12 2022			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
1. Debt securities	1,704,369	520,213	-	2,224,582	3,374,482	504,190	-	3,878,672
1.1 Structured securities	-	-	-	-	-	-	-	-
1.2 Other debt securities	1,704,369	520,213	-	2,224,582	3,374,482	504,190	-	3,878,672
2. Equity instruments	-	10,530	216,843	227,373	-	30,954	223,733	254,687
3. Loans	-	-	-	-	-	-	-	-
Total	1,704,369	530,743	216,843	2,451,955	3,374,482	535,144	223,733	4,133,359

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.

The line “1.2 Other Debt Securities” totalling around EUR 2,224.6 mln – of which EUR 295.3 mln (EUR 894.7 mln as of 31 December 2022) subject to specific fair value hedging entirely against interest rate risk– mainly includes Italian government bonds in the amount of around EUR 1,624.6 mln, down from EUR 3,385.2 mln as at 31 December 2022 due to the maturity of some bonds during 2023. The line also includes EUR 5.0 mln of exposures relating to senior notes of securitisation transactions originated by third parties, acquired by the Bank following the merger by incorporation of MPSCS.

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

At the reporting date, the aggregate does not include equity securities arising from the recovery of impaired financial assets.



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

Items/Amounts	Total 31 12 2023	Total 31 12 2022
1. Debt securities	2,224,582	3,878,672
a) Central banks	-	-
b) Public entities	1,747,428	3,409,534
c) Banks	419,425	427,465
d) Other financial companies	14,354	16,159
of which: Insurance companies	-	-
e) Non-financial companies	43,375	25,514
2. Equity instruments	227,373	254,687
a) Banks	200,967	201,110
b) Other issuers:	26,406	53,577
- other financial companies	17,770	42,160
of which: Insurance companies	-	-
- non-financial companies	8,622	11,404
- others	14	14
3. Loans	-	-
Total	2,451,955	4,133,359

The main cumulative losses relating to equity securities of evidently poor credit quality refer to the investee Restart S.r.l. and were fully recognised in previous financial years, for an amount of EUR 0.5 mln.

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

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

	Gross exposure				Overall value adjustments					Total Partial write-off (*)
	Stage 1		Stage 2	Stage 3	Purchased or originated credit impaired financial assets				Purchased or originated credit impaired financial assets	
		<i>of which: low credit risk instruments</i>				Stage 1	Stage 2	Stage 3		
Debt securities	2,212,097	2,106,236	14,645	-	-	1,899	261	-	-	-
Loans	-	-	-	-	-	-	-	-	-	-
Total 31 12 2023	2,212,097	2,106,236	14,645	-	-	1,899	261	-	-	-
Total 31 12 2022	3,864,792	3,682,665	17,384	-	-	3,102	402	-	-	-

* Value to be presented for disclosure purposes



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 2023							
	Book value				Fair value			
	Stage 1 and Stage 2	Stage 3	<i>purchased or originated credit impaired financial assets</i>	Total	L1	L2	L3	Total
A. Loans to central banks	519,269	-	-	519,269	-	519,269	-	519,269
1. Time deposits	25,001	-	-	25,001	X	X	X	X
2. Compulsory reserve	494,268	-	-	494,268	X	X	X	X
3. Reverse repurchase agreements	-	-	-	-	X	X	X	X
4. Others	-	-	-	-	X	X	X	X
B. Loans to bank	3,702,317	398	-	3,702,715	2,924	3,632,784	398	3,636,106
1. Loans	3,020,398	398	-	3,020,796	-	3,021,411	398	3,021,809
1.1 Current accounts	-	-	-	-	X	X	X	X
1.2 Time deposits	455,706	-	-	455,706	X	X	X	X
1.3 Other loans	2,564,692	398	-	2,565,090	X	X	X	X
- Reverse repurchase agreements	1,030,587	-	-	1,030,587	X	X	X	X
- Finance leases	-	-	-	-	X	X	X	X
- Others	1,534,105	398	-	1,534,503	X	X	X	X
2. Debt securities	681,919	-	-	681,919	2,924	611,373	-	614,297
2.1 Structured securities	-	-	-	-	-	-	-	-
2.2 Other debt securities	681,919	-	-	681,919	2,924	611,373	-	614,297
Total	4,221,586	398	-	4,221,984	2,924	4,152,053	398	4,155,375

The line “Loans to Central banks 2. Compulsory reserve” includes the balance of the compulsory reserve which, at the end of the financial year, amounted to EUR 494.3 mln (EUR 514.7 mln as at 31 December 2022). It should be noted that, in accordance with regulations on average maintenance levels, the end-of-period balance of the compulsory reserve may be subject to changes, also substantial, in relation to the Bank’s contingent treasury requirements.

Total loans and advances to banks equal to EUR 3,702.7 mln, decreased compared to the figure as at 31 December 2022 of EUR 17,541.2 mln, mainly due to the effect of the closure of intercompany relations that the Bank was holding with respect to subsidiaries merged by incorporation.

The item “Loans to banks, 1.3 Other loans – Other”, totalling EUR 1,534.5 mln, includes security deposits of approximately EUR 1,299.4 mln.

It should be noted that “B.1.2 Term deposits” and “B.2.2 Other debt securities” include, respectively, EUR 205.1 mln (EUR 202.5 mln as at 31 December 2022) and EUR 657.0 mln (EUR 652.7 mln as at 31 December 2022) of assets subject to fair value micro-hedging against interest rate risk.

At the reporting date, the aggregate does not include the Bank senior, mezzanine and junior exposures with reference to own and third-party securitisations.



Type of transaction/Amount	Total 31 12 2022							
	Book value				Fair value			
	Stage 1 and Stage 2	Stage 3	<i>purchased or originated credit impaired financial assets</i>	Total	L1	L2	L3	Total
A. Loans to central banks	539,758	-	-	539,758	-	539,758	-	539,758
1. Time deposits	25,001	-	-	25,001	X	X	X	X
2. Compulsory reserve	514,757	-	-	514,757	X	X	X	X
3. Reverse repurchase agreements	-	-	-	-	X	X	X	X
4. Others	-	-	-	-	X	X	X	X
B. Loans to bank	17,541,258	-	-	17,541,258	2,688	17,453,018	-	17,455,706
1. Loans	16,436,576	-	-	16,436,576	-	16,435,242	-	16,435,242
1.1 Current accounts	-	-	-	-	X	X	X	X
1.2 Time deposits	10,071,777	-	-	10,071,777	X	X	X	X
1.3 Other loans	6,364,799	-	-	6,364,799	X	X	X	X
- Reverse repurchase agreements	5,031,129	-	-	5,031,129	X	X	X	X
- Finance leases	-	-	-	-	X	X	X	X
- Others	1,333,670	-	-	1,333,670	X	X	X	X
2. Debt securities	1,104,682	-	-	1,104,682	2,688	1,017,776	-	1,020,464
2.1 Structured securities	-	-	-	-	-	-	-	-
2.2 Other debt securities	1,104,682	-	-	1,104,682	2,688	1,017,776	-	1,020,464
Total	18,081,016	-	-	18,081,016	2,688	17,992,776	-	17,995,464



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

Type of transaction/Amount	31 12 2023							
	Book value				Fair value			
	Stage 1 and Stage 2	Stage 3	<i>purchased or originated credit impaired financial assets</i>	Total	L1	L2	L3	Total
1. Loans	75,224,074	1,738,120	2,744	76,964,938	-	6,228,029	70,997,755	77,225,784
1.1. Current accounts	2,720,676	65,314	228	2,786,218	X	X	X	X
1.2. Reverse repurchase agreements	6,229,986	-	-	6,229,986	X	X	X	X
1.3. Mortgage	50,635,241	1,376,325	2,212	52,013,778	X	X	X	X
1.4. Credit cards, personal loans and fifth-of-salary backed loans	1,108,683	5,991	-	1,114,674	X	X	X	X
1.5. Finance lease	2,873,415	172,868	-	3,046,283	X	X	X	X
1.6. Factoring	1,776,975	12,618	-	1,789,593	X	X	X	X
1.7. Other transactiones	9,879,098	105,004	304	9,984,406	X	X	X	X
- of which operating loans	14,263	-	-	14,263	-	-	-	-
-of which: leased assets under construction	192,144	1,874	-	194,018	-	-	-	-
2. Debt securities	10,061,226	-	-	10,061,226	8,256,268	1,234,846	-	9,491,114
2.1. Structured securities	-	-	-	-	-	-	-	-
2.2. Other debt securities	10,061,226	-	-	10,061,226	8,256,268	1,234,846	-	9,491,114
Total	85,285,300	1,738,120	2,744	87,026,164	8,256,268	7,462,875	70,997,755	86,716,898

“Loans to customers” also includes operating receivables for EUR 14.3 mln (EUR 7.9 mln as at 31 December 2022) - other than those connected with the payment for the supply of non-financial goods and services, posted to Asset item 150 “Other assets”, subject to the provisions pursuant to IFRS 9, paragraph 5.5.15 a) i).

Lines “1.5 Loans for leases” and “1.6 Factoring” refer to the financial assets that the Bank acquired following the merger by incorporation of the subsidiary MPS Leasing & Factoring SpA (MPSLF).

The item also includes loans to Monte Paschi Fiduciaria for EUR 0.35 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 “Purchased or originated credit impaired” for EUR 2.7 mln (EUR 1.8 mln as at 31 December 2022) is almost entirely made up of assets originating from restructuring agreements on non-performing positions. As part of the merger by incorporation of MPSCS and MPSLF, the Bank acquired impaired loans for a total of EUR 1.4 mln, fully written down.

Line “2.2 Other debt securities” equal to EUR 10,061.2 mln comprises mainly Italian government bonds in the amount of EUR 7,389.6 mln (EUR 6,287.1 mln as at 31 December 2022). EUR 1,003.9 mln (EUR 989.0 mln as at 31 December 2022) of the senior notes pertaining to the securitisation transaction of the MPS Group’s bad loan portfolio, finalised by the Bank in the first half of 2018. The line also includes unlisted bonds in active markets issued mainly by local public entities (B.O.C.). Finally, this includes EUR 3,885.2 mln (EUR 3,541.9 mln as at 31 December 2022) of securities subject to fair value micro-hedging for interest rate risk.

“Loans to customers” include loans disbursed with funds made available by the Government or by other public institutions, 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 has subscribed to the agreements specifically structured by ABI and CDP for the support of the business sector, for the support of individuals and in favour of the local economy in the case of natural disasters. Except for the latter agreement, whose subsidised loans are backed by State guarantee, the loans disbursed by the Bank are characterised by conditions released from the CDP funding, subject to independent negotiation between the parties, and are mandatorily assigned as collateral to CDP.

Conversely, with regard to management of resources made available through regional or national measures, the Group’s operations refer to specific agreements stipulated by the Bank with the regional financial institutions, such as Veneto Sviluppo, Finlombarda, Finpiemonte and Puglia Sviluppo, or other regional fund managers (Artigiancredito per il Fondo Multiscopo of the Emilia Romagna region), or with CDP regarding alternative instruments such as the so-called “Rotation Funds”. The resources are intended to encourage and support companies operating in certain areas and in specific economic sectors. These loans are generally disbursed with part of the funding made available with public funds and part with the Bank’s own resources



(co-financing). The funding with public funds varies according to the initiative to be financed: the percentage is defined by specific Regional Laws or Resolutions and, as a rule, integration with the Bank's own resources is envisaged up to the total coverage of the expenditure.

Finally, it should be noted that, in line with the Bank of Italy communication of the Bank of Italy of 14 March 2023 "Update of the provisions of Circular no. 262 - Bank financial statements: layouts and rules for compilation - concerning the impacts of COVID-19 and of the measures to support the economy", the Bank has provided a total of state-guaranteed loans (in application of the Law Decree no. 23, "Liquidity", of 8 April 2020) for an amount of EUR 11.5 bn, with a book value of EUR 7,064.2 mln as at 31 December 2023 (EUR 9,633.7 mln as at 31 December 2022). With reference to the moratoria granted to support households and businesses for COVID-19, as at 31 December 2023, there were no longer any residual exposures (EUR 36.5 mln as at 31 December 2022).

Type of transaction/Amount	31 12 2022							
	Book value				Fair value			
	Stage 1 and Stage 2	Stage 3	<i>purchased or originated credit impaired financial assets</i>	Total	L1	L2	L3	Total
1. Loans	60,926,208	1,282,352	1,859	62,210,419	-	-	61,088,710	61,088,710
1.1. Current accounts	2,837,306	83,352	252	2,920,910	X	X	X	X
1.2. Reverse repurchase agreements	-	-	-	-	X	X	X	X
1.3. Mortgage	49,120,313	1,056,308	1,333	50,177,954	X	X	X	X
1.4. Credit cards, personal loans and fifth-of-salary backed loans	763,229	5,584	-	768,813	X	X	X	X
1.5. Finance lease	-	-	-	-	X	X	X	X
1.6. Factoring	-	-	-	-	X	X	X	X
1.7. Other transactiones	8,205,360	137,108	274	8,342,742	X	X	X	X
- of which operating receivable	7,901	-	-	7,901	-	-	-	-
2. Debt securities	8,716,114	-	-	8,716,114	6,618,460	1,162,276	-	7,780,736
2.1. Structured securities	-	-	-	-	-	-	-	-
2.2. Other debt securities	8,716,114	-	-	8,716,114	6,618,460	1,162,276	-	7,780,736
Total	69,642,322	1,282,352	1,859	70,926,533	6,618,460	1,162,276	61,088,710	68,869,446



4.3 Financial assets measured at amortised cost: breakdown by debtor/issuer of loans to customers

Type of transaction/Amount	Total 31 12 2023			Total 31 12 2022		
	Stage 1 and Stage 2	Stage 3	Purchased or originated credit impaired financial assets	Stage 1 and Stage 2	Stage 3	Purchased or originated credit impaired financial assets
1. Debt securities	10,061,226	-	-	8,716,114	-	-
a) Public entities	8,742,542	-	-	7,501,108	-	-
b) Other financial companies	1,112,425	-	-	1,107,644	-	-
of which: insurance companies	62,407	-	-	62,451	-	-
c) Non-financial companies	206,259	-	-	107,362	-	-
2. Loans to:	75,224,074	1,738,120	2,744	60,926,207	1,282,352	1,859
a) Public Entities	1,699,013	6,970	-	1,545,540	30,534	-
b) Other financial companies	9,289,423	1,987	-	1,694,506	11,235	-
of which: insurance companies	334	-	-	53	-	-
c) Non-financial companies	31,663,066	1,051,432	2,559	24,165,659	674,831	1,680
d) Families	32,572,572	677,732	185	33,520,502	565,753	179
Total	85,285,300	1,738,120	2,744	69,642,321	1,282,352	1,859

4.4 Financial assets measured at amortised cost: gross value and overall value adjustments

Type of transaction/ Amount	Gross value				Purchased or originated credit impaired financial assets	Overall value adjustment			Purchased or originated credit impaired financial assets	Total Partial write-off (**)
	Stage 1	of which: low credit risk instruments	Stage 2	Stage 3		Stage1	Stage 2	Stage 3		
Debt securities	10,708,219	10,398,140	46,802	-	-	7,670	4,206	-	-	-
Loans	69,304,042	-	9,931,139	3,372,988	4,805	104,506	366,935	1,634,469	2,061	32,857
31 12 2023	80,012,261	10,398,140	9,977,941	3,372,988	4,805	112,176	371,141	1,634,469	2,061	32,857
31 12 2022	78,819,867	9,135,674	9,264,626	2,237,087	2,683	77,691	283,465	954,735	823	20,243

** Value to be presented for disclosure purposes

For financial assets included in the stage 3 column and for purchased or originated credit impaired financial assets, 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. For impaired financial assets purchased, the gross value corresponds to the purchase price and the adjustments correspond 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 hedge and level

	Fair value 31 12 2023				Total Net Value 31 12 2023
	Level 1	Level 2	Level 3	Total	
A. Financial derivatives	-	662,012	-	662,012	20,289,017
1) Fair value	-	662,012	-	662,012	20,289,017
2) Cash flows	-	-	-	-	-
3) Foreign investments	-	-	-	-	-
B. Credit derivatives	-	-	-	-	-
1) Fair value	-	-	-	-	-
2) Cash flows	-	-	-	-	-
Total	-	662,012	-	662,012	20,289,017

key

NV = Notional or Nominal Value

The table shows 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 2023				Total Net Value 31 12 2022
	Level 1	Level 2	Level 3	Total	
A. Financial derivatives	-	996,144	-	996,144	21,971,269
1) Fair value	-	996,144	-	996,144	21,971,269
2) Cash flows	-	-	-	-	-
3) Foreign investments	-	-	-	-	-
B. Credit derivatives	-	-	-	-	-
1) Fair value	-	-	-	-	-
2) Cash flows	-	-	-	-	-
Total	-	996,144	-	996,144	21,971,269

key

NV = Notional or Nominal Value



5.2 Hedging derivatives: breakdown by hedged portfolios and type of hedging

Transaction/Type of hedge	Fair Value						Cash Flows			Investments Foreign	Total 31 12 2023
	Micro-hedge						Macro-hedge	Micro-hedge	Macro-hedge		
	debt securities and interest rate	equity instruments and stock indices	currencies and gold	Credit	Commodities	Others					
1. Financial assets measured at fair value through other comprehensive income	22,797	-	-	-	X	X	X	-	X	X	22,797
2. Financial assets measured at amortised cost	275,880	X	-	-	X	X	X	-	X	X	275,880
4. Portfolio	X	X	X	X	X	X	343,218	X	-	X	343,218
5. Other transactions	-	-	-	-	-	-	X	-	X	-	-
Total assets	298,677	-	-	-	-	-	343,218	-	-	-	641,895
1. Financial liabilities	18,744	X	-	-	-	-	X	-	X	X	18,744
2. Portfolio	X	X	X	X	-	X	1,373	X	-	X	1,373
Total liabilities	18,744	-	-	-	-	-	1,373	-	-	-	20,117
1. Expected transactions	X	X	X	X	X	X	X	-	X	X	-
2. Financial assets and liabilities portfolio	X	X	X	X	X	X	-	X	-	-	-
Total	317,421	-	-	-	-	-	344,591	-	-	-	662,012

The table shows the positive fair values of hedging derivatives, classified by hedged assets or liabilities and type of hedging implemented.

In particular, for financial assets, fair value micro-hedging was used to hedge against interest rate risk on bonds classified in the portfolio “Financial assets measured at fair value through other comprehensive income”, in order to protect the portfolio from unfavourable interest rate changes; fair value macro-hedging of the interest rate risk refers to hedges of optional components implicit in a floating-rate mortgage loans portfolio; the generic fair value hedge on interest rate risk refers to hedges of fixed-rate mortgage portfolios and implicit option components of floating-rate mortgage portfolios.

With reference to financial liabilities, fair value micro-hedging of the interest rate risk refers primarily to hedges of liabilities represented by securities, while fair value macro-hedging of the interest rate risk refers to hedges of liabilities represented by deposit accounts.

More information on hedged assets and liabilities can be found in the tables contained in Part B of the notes to the financial statements for each section of the balance sheet items to which the hedged items are posted.



Section 6 - Change in value of macro-hedged financial assets - Item 60

6.1 Change in value of hedged assets: breakdown by hedged portfolios

Changes in value of hedged assets / Group components	Total 31 12 2023	Total 31 12 2022
1. Positive changes	-	-
1.1 of specific portfolios:	-	-
a) loans and receivables	-	-
b) financial assets measured at fair value through other comprehensive income	-	-
1.2 overall	-	-
2. Negative changes	509,161	820,758
2.1 of specific portfolios:	509,161	820,758
a) loans and receivables	509,161	820,758
b) financial assets measured at fair value through other comprehensive income	-	-
2.2 overall	-	-
Total	(509,161)	(820,758)

The value adjustment mainly concerns mortgage loan portfolios with fixed rates and floating rates with cap/floor, hedged (fair value macro-hedge) with derivative contracts to mitigate the risk of fluctuations in value due to changes in interest rates. 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 reduction in the negative value adjustment of macro-hedged assets compared to last year is due to the continued rise in market rates during the first three quarters of 2023 which resulted in a decrease in the fair value of the portfolio of hedged mortgages against increases in the value of the related hedging derivatives.

The fair value of the corresponding hedging derivatives is shown respectively in Table 5.2 (assets) or Table 4.2 (liabilities), both entitled "Hedging derivatives: breakdown by hedged portfolio and type of hedging", in the "Macro-hedging" column.

The assets subject to macro hedging of interest risk refer to fixed and cap/floor floating rate mortgage loan portfolios included in item 40 "Financial assets measured at amortised cost - Loans to customers", amounted to EUR 10,613.4 mln as at 31 December 2023 (EUR 9,856.7 mln as at 31 December 2022). The sum of this amount and the one shown in the table expresses the book value of these receivables, adjusted for profit or loss attributable to the risk hedged.



Section 7 – Equity investments – Item 70

7.1 Equity investments: information on shareholding

Company Name	Headquarters	Registered Office	Share holding %	Available votes %
A. Subsidiaries				
Aiace Reoco s.r.l.	Siena	Siena	100.000	
Cirene Finance S.r.l.	Conegliano (TV)	Conegliano (TV)	60.000	
G.Imm.Astor s.r.l.	Lecce	Lecce	52.000	
Magazzini Generali Fiduciari di Mantova S.p.a.	Mantua	Mantua	100.000	
Monte paschi banque S.A.	Paris	Paris	100.000	
Monte paschi fiduciaria S.p.a.	Siena	Siena	100.000	
Mps covered bond 2 S.r.l.	Conegliano (TV)	Conegliano (TV)	90.000	
Mps covered bond S.r.l.	Conegliano (TV)	Conegliano (TV)	90.000	
Mps Tenimenti Poggio Bonelli e Chigi Saracini soc. agricola S.p.a.	Castelnuovo Barardenga (SI)	Castelnuovo Barardenga (SI)	100.000	
Siena lease 2016 2 S.r.l.	Conegliano (TV)	Conegliano (TV)	100.000	
Siena mortgages 07 5 S.p.a.	Conegliano (TV)	Conegliano (TV)	7.000	
Siena mortgages 09 6 S.r.l.	Conegliano (TV)	Conegliano (TV)	7.000	
Siena mortgages 10 7 S.r.l.	Conegliano (TV)	Conegliano (TV)	7.000	
Siena PMI 2016 S.r.l.	Conegliano (TV)	Conegliano (TV)	10.000	
Wise Dialog Bank S.p.a. in breve WIDIBA	Milan	Milan	100.000	
B. Companies under joint control				
Immobiliare Novoli S.p.a.	Florence	Florence	50.000	

Company Name	Headquarters	Registered Office	Share holding %	Available votes %
C. Companies under significant influence				
Axa Mps Assicurazioni danni S.p.a.	Rome	Rome	50.000	
Axa Mps Assicurazioni vita S.p.a.	Rome	Rome	50.000	
Fidi Toscana S.p.a.	Florence	Florence	27.460	
Fondo Etrusco Distribuzione	Rome	Rome	48.000	
Fondo Democrito	Rome	Rome	52.220	
Microcredito di Solidarieta' S.p.a.	Siena	Siena	40.000	

(a) The units in the Democrito real estate fund ("The Fund"), equal to 52.22%, were taken on in December 2023, as a result of the rollover transaction of the Socrate real estate fund, promoted by the Fund's management company - Fabbrica Immobiliare S.G.R. S.p.A. - in view of the maturity of the same set at 31 December 2023 and the impossibility of proceedings with the reimbursement of listed investors, as a large part of the properties were unsold.

In detail, the aforementioned transaction provided for the establishment of the Fund, unlisted and with a duration of 5 years with the possibility of extension, to which the listed institutional investors of the Socrate Fund (including Banca MPS for a share equal to 23.14%) contributed their shares with the simultaneous allocation of the shares of the new Democrito Fund. The Fund purchased the residual real estate portfolio of the Socrate Fund partly through the opening of a credit line with a third-party bank, which will be repaid in conjunction with the sales of the properties and, in part, through a loan from the Socrate Fund. The liquidity obtained from the Socrates Fund through the sale of the properties was used for the reimbursement of retail shareholders; the payable of Socrates for the repayment of the Fund's units, contributed by the former Socrate's shareholder institutional investors, was offset with the debt incurred by the Fund for the purchase of the properties.

From an accounting point of view, the derecognition of the shares in the Socrate Fund and the recognition of the new shares acquired in the Democrito real estate fund, resulted in a negative impact on the income statement of EUR 2.4 mln recorded under item 220 "Gains/losses on investments".

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

For information on this paragraph, please refer to the corresponding section of the Notes to the Consolidated Financial Statements.

7.3 Significant equity investments: accounting information

For information on this paragraph, please refer to the corresponding section of the Notes to the Consolidated Financial Statements.

7.4 Non-significant equity investments: accounting information

For information on this paragraph, please refer to the corresponding section of the Notes to the Consolidated Financial Statements.

7.5 Equity investments: annual changes

	Total 31 12 2023	Total 31 12 2022
A. Opening balance	2,361,518	2,494,336
B. Increases	5,122	326
B.1 Purchases	12	326
B.2 Write-backs	-	-
B.3 Revaluations	-	-
B.4 Other increases	5,110	-
C. Decreases	1,601,767	133,144
C.1 Sales	-	-
C.2 value adjustment	6,810	54
C.3 Depreciation	-	-
C.4 Other decreases	1,594,957	133,090
D. Closing balance	764,873	2,361,518
E. Total revaluation	-	-
F. Total value adjustments	193,054	2,851,492

Below are the main changes in the item “Equity investments” in the financial year ended 31 December 2023.

In line B.4 “Other changes”, the amount of EUR 5.1 mln refers to the acquisition of the units of the Democrito fund, completed in December 2023, following the rollover transaction of the Socrate fund.

In line with the provisions of the accounting standards, the impairment test on equity investments showed value adjustments totalling EUR 6.8 mln, indicated in line C.2 “Value adjustments”, referring for Euro 0.2 mln to the subsidiary Aiace Reoco S.r.l., and Euro 6.6 mln to Fidi Toscana, a company under significant influence.

The amount of EUR 1,595.0 mln recognised in line C4 “Other changes” mainly refers to the derecognition of the equity investments in the subsidiaries MPS Leasing & Factoring S.p.A. (for EUR 154 mln) and MPS Capital Services Banca per le Imprese S.p.A. (for EUR 1,431.4 mln) following the merger by incorporation of the aforementioned subsidiaries into Banca MPS. The line also includes the cancellation of the units of the Socrate real estate fund, amounting to EUR 7.5 mln, following the rollover of the fund and simultaneous assumption of the units of the Democrito fund, and the full reimbursement of the units of the Minibond fund following the final allocation of the shares promoted by Finanziaria Internazionale Investments SGR S.p.A. and ended in June 2023, amounting to approximately EUR 1.9 mln.



7.6 Covenants on equity investments in jointly controlled companies

For information on this paragraph, please refer to the corresponding section of the Notes to the Consolidated Financial Statements.

7.7 Covenants on equity investments in companies under significant influence

For information on this paragraph, please refer to the corresponding section of the Notes to the Consolidated Financial Statements.

7.8 Significant restrictions

For information on this paragraph, please refer to the corresponding section of the Notes to the Consolidated Financial Statements.

7.9 Other information

For information on this paragraph, please refer to the corresponding section of the Notes to the Consolidated Financial Statements.

Impairment tests on equity investments

As required by IAS/IFRS, impairment tests were carried out on equity investments to verify whether there is objective evidence of impairment that might make the book value of these assets not entirely recoverable. For equity investments in associates or jointly controlled entities, the process to recognise impairment involves verifying the presence of impairment indicators and calculating the necessary write-down. For further details, please refer to Part A of these Notes to the financial statements, paragraph “Use of estimates and assumptions - Methods for determining impairment of equity investments”. In the presence of breach of the indicators, the recoverable value was calculated using two distinct approaches:

- companies without positive income or without a multi-year forecast plan: in this case, a valuation method based on the company's equity as at 31 December 2023 was used;
- companies with positive income and/or a multi-year forecast plan: the valuation method used was based on the discounting of the dividend flows that may be distributed by the investee company (DDM).

The valuation of the subsidiary Widiba is carried out indirectly as part of the impairment test of the single Cash Generating Unit (IAS 36) identified at consolidated level as part of the goodwill impairment test, to which reference should be made for more details, the 2022-2026 projections underlying the Group Business Plan, approved by the Board of Directors on 22 June 2022, were used to estimate expected future results, with an update of the final 2023 figures.

The analyses performed showed the need to make a value adjustment on the subsidiary Aiace Reoco S.r.l in the amount of EUR 0.2 mln, and on the company under significant influence, Fidi Toscana, in the amount of EUR 6.6 mln. Last year, valuations had led to value adjustments only for the subsidiary Aiace Reoco S.r.l. (EUR 0.01 mln).



Section 8 - Property, plant and equipment - Item 80

8.1 Property, plant and equipment used in the business: breakdown of assets measured at cost

Asset/Amount	Total	
	31 12 2023	31 12 2022
1. Assets owned	192,164	210,963
a) land	-	-
b) buildings	-	-
c) furniture and furnishings	129,183	132,397
d) electronic systems	40,819	50,346
e) other	22,162	28,220
2. Right of use acquiring through leasing	163,206	179,617
a) land	-	-
b) buildings	162,131	173,949
c) furniture and furnishings	-	-
d) electronic systems	-	3,631
e) other	1,075	2,037
Total	355,370	390,580

All the Bank's property, plant and equipment are measured at cost, with the exception of land and buildings, for which the Bank has applied the revaluation method.

Item 1 "Assets owned –c) furnishings" includes artworks whose value amounts to EUR 119.5 mln.

The rights of use acquired under leasing are nearly entirely attributable to lease contracts used as branches and as spaces intended to accommodate ATMs or internal offices. The rights of use on electronic systems are zeroed as the equipment previously subject to rental agreements was purchased by the Bank in 2023 by exercising the right of redemption.

As at the reporting date of these Financial Statements, as well as in the comparison financial year, there are no property, plants and equipment acquired through the enforcement of guarantees.

8.2 Property, plant and equipment held for investment purposes: breakdown of assets measured at cost

There were no assets measured at cost.

8.3 Property, plant and equipment used in the business: breakdown of revalued assets

Asset/Amount	Total 31 12 2023				Total 31 12 2022			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
1. Assets owned	-	-	1,476,374	1,476,374	-	-	1,558,494	1,558,494
a) land	-	-	847,557	847,557	-	-	923,918	923,918
b) buildings	-	-	628,817	628,817	-	-	634,576	634,576
2. Right of use acquiring through leasing	-	-	-	-	-	-	-	-
Total	-	-	1,476,374	1,476,374	-	-	1,558,494	1,558,494

Land and buildings classified as tangible assets for functional use are valued according to the restated value criterion, for valuation subsequent to initial recognition; the line "land" expresses the value of land separately from the value of buildings.

As at 31 December 2023, the Bank has granted operating leases of owned assets for business use totalling EUR 9.0 mln, entirely in the categories a) land and b) buildings. For more information on the Group's lease assets, see Part M of these Notes to the Financial Statements.

There were no property, plant and equipment obtained by means of financial leases or through the enforcement of guarantees at the reporting date of these Financial Statements or for the financial year of comparison.



8.4 Property, plant and equipment held for investment purposes: breakdown of assets measured at fair value

Asset/Amount	Total 31 12 2023				Total 31 12 2022			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
1. Assets owned	-	-	285,247	285,247	-	-	259,950	259,950
a) land	-	-	127,300	127,300	-	-	128,017	128,017
b) buildings	-	-	157,947	157,947	-	-	131,933	131,933
2. Right of use acquiring through leasing	-	-	-	-	-	-	-	-
Total	-	-	285,247	285,247	-	-	259,950	259,950
<i>of which: obtained through the enforcement of the guarantees received</i>	-	-	25,764	25,764	-	-	-	-

Assets measured at fair value consist of owned real estate not used for business operations. In this regard, it should be noted that the Bank does not hold investment assets represented by rights of use acquired through leases.

As at 31 December 2023, the Bank granted operating leases on owned investment property totalling EUR 63.1 mln, entirely attributable to the categories a) land and b) buildings. For more information on the Group's leasing assets, see Part M of these Notes to these Financial Statements.

The criteria for classification of property, plant and equipment as an investment property 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.

At the reporting date of these financial statements, or for the year of comparison, there were no cases under paragraph 75 letter g), h) of IAS 40 attributable to: restrictions on the feasibility of investment properties or on the remittance of income and collections related to the disposal; contractual obligations for the acquisition, construction or development of investment property or for repairs, maintenance or improvements.

8.5 Inventories of property, plant and equipment governed by IAS 2: breakdown

Assets/Amounts	Total	
	31 12 2023	31 12 2022
1. Inventories of property, plant and equipment obtained through enforcement of the guarantees	-	-
a) Land	-	-
b) Buildings	-	-
c) Furniture and furnishings	-	-
d) Electronic systems	-	-
e) Others	-	-
2. Others inventories of property, plant and equipment	23,547	25,018
Total	23,547	25,018

“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 2023
A. Gross opening balance	956,476	1,415,428	502,826	829,541	501,858	4,206,129
A.1 Total net decrease	32,558	606,903	370,429	775,564	471,601	2,257,055
A.2 Net opening balance	923,918	808,525	132,397	53,977	30,257	1,949,074
B. Increases	7,079	114,017	868	8,751	2,591	133,306
B.1 Purchases	-	14,157	864	8,747	2,184	25,952
B.2 Capitalized expenditure on improvements	-	14,030	-	-	-	14,030
B.3 Write-backs	-	-	-	-	-	-
B.4 Increases in fair value booked to:	7,051	3,008	-	-	-	10,059
a) shareholders' equity	5,777	1,478	-	-	-	7,255
b) profit and loss	1,275	1,530	-	-	-	2,805
B.5 Exchange gains	-	-	-	-	-	-
B.6 Transfers from properties held for investment	-	-	-	-	-	-
B.7 Other increases	28	82,822	4	4	407	83,265
C. Decreases	83,440	131,595	4,082	21,909	9,612	250,638
C.1 Sales	-	-	-	-	-	-
C.2 Depreciation	-	65,031	4,082	21,218	9,576	99,907
C.3 Impairment losses booked to:	-	21	-	-	-	21
a) shareholders' equity	-	-	-	-	-	-
b) profit and loss	-	21	-	-	-	21
C.4 Decreases in fair value booked to:	39,254	27,662	-	-	-	66,916
a) shareholders' equity	23,567	12,739	-	-	-	36,306
b) profit and loss	15,687	14,923	-	-	-	30,610
C.5 Exchange losses	-	31	-	9	1	41
C.6 Transfer to:	13,052	8,010	-	-	-	21,062
a) tangible asset held for investment	13,052	8,010	-	-	-	21,062
b) Non-current assets and groups of assets held for sale and disposal groups	-	-	-	-	-	-
C.7 Other decreases	31,134	30,840	-	682	35	62,691
D. Net closing balance	847,557	790,947	129,183	40,819	23,237	1,831,743
D.1 Total net decreases	32,559	668,559	378,424	797,102	483,164	2,359,808
D.2 Gross closing balance	880,116	1,459,506	507,607	837,921	506,401	4,191,551
E. Carried at cost	557,891	795,210	-	-	-	1,353,101

The furniture, electronic systems and property, plant and equipment included in the “Other” column are valued at cost.

On the other hand, owned land and buildings are valued according to the restated value method, for valuation after initial recognition at cost.

Line B.4 “Positive changes in fair value” shows total changes of EUR 10.0 mln, of which EUR 2.8 mln charged to the Income Statement as write-backs resulting from previous impairment losses and EUR 7.2 mln to valuation reserves. Line C.4 “Negative changes in fair value” shows total changes of EUR 66.9 mln, of which EUR 30.6 mln was charged to the Income Statement and EUR 36.3 mln to the pre-existing valuation reserves. These changes result from the update of the value of real estate carried out as at 31 December 2023. For details of the valuation methodologies, see paragraph “Fair value levels 2 and 3: measurement techniques and inputs used” in Part A of these Notes to the Financial Statements.

Lines “B.7– Other changes” and “C.7 – Other changes”, in the column “buildings”, respectively show the increases and decreases related to the rights of use of some properties, resulting from mergers, renewals and renegotiations of contracts finalised during the year (see table 8.6 a.). The same lines also show in the “land” column the transfers of value between the “building” component and that of the “land” of the same property, in relation to the fact that the unit of measurement considered in order to determine the valuation effects, to be recognised in shareholders' equity or in the income statement based on the sign, is the individual property. In this regard, it must, in fact, be specified that the opening of the single property



between the two components (“land” and “building”) is relevant for the purpose of calculating depreciation, depending on the different deterioration that characterises them; the aforementioned opening, on the other hand, is not relevant for the purpose of a separate determination of the valuation effects, taking into account that the two components of the same property cannot be sold separately.

Line C.6 letter a) “Transfers to property, plant and equipment held for investment purposes” mainly refers to the properties owned by the Bank that were reclassified following the change of use of the prevailing portion of the property.

Line E. - “Carried at cost” was given a value for land and buildings for business use; as per the Bank of Italy’s instructions, it only needs to be completed for assets measured at fair value.

8.6 a Property, plant and equipment used in the business - rights of use acquired: annual changes

	Land	Buildings	Furniture and furnishings	Electronic systems	Others	Total 31 12 2023
A. Gross opening balance	-	338,482	-	19,023	6,297	363,802
A.1 Net opening balance	-	173,949	-	3,631	2,037	179,617
A.1 Total net decrease	-	164,533	-	15,392	4,260	184,185
B. Increases	-	56,893	-	-	383	57,276
B.1 Purchases	-	14,157	-	-	132	14,289
B.2 Capitalized expenditure on improvements	-	-	-	-	-	-
B.6 Transfers from properties held for investment	-	-	-	-	-	-
B.7 Other increases	-	42,736	-	-	251	42,987
C. Decreases	-	68,711	-	3,631	1,345	73,687
C.1 Sales	-	-	-	-	-	-
C.2 Depreciation	-	37,818	-	3,631	1,312	42,761
C.3 Impairment losses booked to:	-	21	-	-	-	21
a) shareholders’ equity	-	-	-	-	-	-
b) profit and loss	-	21	-	-	-	21
D.1 Total net decreases	-	30,841	-	-	33	30,874
D. Net closing balance	-	162,131	-	-	1,075	163,206
D.2 Gross closing balance	-	198,379	-	19,023	5,949	223,351
D.2 Gross closing balance	-	360,510	-	19,023	7,024	386,557
E. Carried at cost	-	-	-	-	-	-

The outcome of the impairment test carried out as at 31 December 2023 on the rights of use on properties led to the recognition of an impairment loss equal to EUR 0.02 mln recognised in the income statement item 180 “Net impairment losses/reversals on property, plant and equipment” and included in the aforementioned table in line “C.3 Impairment losses charged to the income statement”.

Line B.1 “Purchases” includes the right of use relating to the stipulation of lease agreements on real estate.

Line B.7 “Other changes” includes:

- EUR 20.8 mln in the “Buildings” column and EUR 0.3 mln in the “Other” column for assets acquired by the Bank following the merger of MPSCS and MPSLF into Banca MPS;
- the changes in the book value of the rights of use resulting from the renewal of existing contracts.

“Other decreases” in line C.7 are mainly due to:

- renegotiations of the economic terms of existing contracts, agreed during the financial year;
- the release of properties or portions of properties as part of the reorganization of spaces.



8.7 Property, plant and equipment held for investment purposes: annual changes

	31 12 2023		
	Lands	Building	Total
A. Closing balance 31 12 20	128,017	131,933	259,950
B Increases	30,467	45,820	76,287
B.1 Purchases	-	-	-
B.2 Capitalized expenditure on improvements	-	1,102	1,102
B.3 Increases in fair value	1,688	1,852	3,540
B.4 Write-backs	-	-	-
B.5 Exchange gains	-	-	-
B.6 Transfers from property used in the business	13,052	8,010	21,062
B.7 Other increases	15,727	34,856	50,583
C. Decreases	31,184	19,806	50,990
C.1 Sales	486	319	805
C.2 Depreciation	-	-	-
C.3 Decreases in fair value	11,799	15,165	26,964
C.4 Impairment losses	-	-	-
C.5 Exchange losses	-	-	-
C.6 Transfers to other asset portfolios	6,377	3,945	10,322
a) properties used in the business	-	-	-
b) Non-current assets held for sale and disposal groups	6,377	3,945	10,322
C.7 Other decreases	12,522	377	12,899
D. Closing balance	127,300	157,947	285,247
E. Designated at fair value	-	-	-

As at 31 December 2023, assets held for investment purposes, consisting entirely of owned properties measured at fair value, amounted to EUR 285.2 mln (EUR 260.0 mln as at 31 December 2022).

Lines B.3 “Increases in fair value” and C.3 “Decreases in fair value” show the changes attributable to changes in the estimate of fair value resulting from the update of the appraisals as at 31 December 2023, which are overall negative for EUR 23.4 mln. In this regard, it should be noted that, for the purposes of compiling the table in question, the valuation effects at fair value were posted by breaking down the overall impact for each property, between “land” component and “building” component. In the table that breaks down the income statement item “260. Net gains (losses) on property, plant and equipment and intangible assets measured at fair value”, where the above mentioned valuation impact is reported, capital gains (losses) are however determined taking the individual property as reference unit.

Line B.7 “Other changes” includes EUR 15.7 mln in the “Land” column and EUR 28.7 mln in the “Buildings” column, purchased by the Bank following the merger of MPSCS and MPSLF.

The sub-item “E. Measured at fair value”, to be completed for investment properties valued at cost, is blank as all properties are valued at fair value. As at 31 December 2023, therefore, the book value of property, plant and equipment held for investment purposes (sub-item D) corresponds to its fair value.



8.8 Inventories of property, plant and equipment governed by IAS 2: annual changes

	Gross closing balance of tangible assets obtained through enforcement of the guarantees received					Other Closing balance of tangible assets	Total
	Land	Buildings	Furniture and furnishings	Electronic systmes	Others		
A. Opening balance	-	-	-	-	-	25,019	25,019
B. Increase	-	-	-	-	-	106	106
B.1 Purchases	-	-	-	-	-	-	-
B.2 Write-backs	-	-	-	-	-	20	20
B.3 Exchange gains	-	-	-	-	-	-	-
B.4 Other increases	-	-	-	-	-	86	86
C. Decreases	-	-	-	-	-	1,578	1,578
C.1 Sales	-	-	-	-	-	136	136
C.2 Impairment losses	-	-	-	-	-	1,152	1,152
C.3 Exchange losses	-	-	-	-	-	-	-
C.3 Other decreases	-	-	-	-	-	290	290
D. Closing balance	-	-	-	-	-	23,547	23,547

8.9 Commitments to purchase property, plant and equipment

No commitments to purchase property, plant and equipment were registered in 2023 or in the previous financial year.

8.10 Property, plant and equipment: depreciation rates

Main categories of property, plant and equipment	%
Buildings	2%-20%
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, land and artworks are not depreciated. Investment property measured at fair value is not subject to depreciation.

For buildings for business use, the depreciation rates are determined on the basis of the cluster to which the individual building belongs. The different clusters are defined in terms of useful life, starting from a minimum of 5 years up to a maximum of 50 years.

Note that the rights of use acquired through leasing are depreciated based on the lease contract duration.



Section 9 – Intangible assets – Item 90

9.1 Intangible assets: breakdown by type

Asset / Amount	31 12 2023			31 12 2022		
	Finite Life	Indefinite Life	Total	Finite Life	Indefinite Life	Total
A.1 Goodwill	X	-	-	X	-	-
A.2 Other intangible assets	156,248	-	156,248	139,623	-	139,623
<i>of which software</i>	156,248	-	156,248	139,244	-	139,244
A.2.1 Assets carried at cost	156,248	-	156,248	139,623	-	139,623
a) internally generated intangible assets	30,643	-	30,643	39,770	-	39,770
b) other assets	125,605	-	125,605	99,853	-	99,853
A.2.2 Assets valued at fair value:	-	-	-	-	-	-
a) internally generated intangible assets	-	-	-	-	-	-
b) other assets	-	-	-	-	-	-
Total	156,248	-	156,248	139,623	-	139,623

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 – a) internally generated intangible assets" includes intangible assets linked to internally generated technology (software developed in-house) in the amount of EUR 30.6 mln.

Line "A.2.1 Assets carried at cost – b) Other assets" includes software purchased from/developed by third parties for EUR 125.6 mln.

Software, recognised overall in the financial statements, amounting to EUR 156.2 mln, is normally amortised over a period of three to five years, except in special cases. Finally it should be noted that the analysis was carried out of the future service life of the main capitalised assets to check for impairment, leading to an adjustment of about EUR 0.7 mln.



9.2 Intangible assets: annual changes

	Goodwill	Other intangible assets: generated internally		Other intangible assets: other		Total
		finite life	indefinite life	finite life	indefinite life	31 12 2023
A. Opening balance	5,209,817	539,735	-	1,978,732	-	7,728,284
A.1 Total net decreases	5,209,817	499,965	-	1,878,879	-	7,588,661
A.2 Net opening balance	-	39,770	-	99,853	-	139,623
B. Increases	-	5,918	-	71,614	-	77,532
B.1 Purchases	-	5,918	-	70,848	-	76,766
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 Exchange losses	-	-	-	-	-	-
B.6 Other increases	-	-	-	766	-	766
C. Decreases	-	15,045	-	45,862	-	60,907
C.1 Sales	-	-	-	-	-	-
C.2 value adjustment	-	15,045	-	45,862	-	60,907
- Depreciation	X	14,456	-	45,754	-	60,210
- Write-downs	-	589	-	108	-	697
+ net equity	X	-	-	-	-	-
+ profit and loss	-	589	-	108	-	697
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 Exchange losses	-	-	-	-	-	-
C.6 Other decreases	-	-	-	-	-	-
D. Net closing balance	-	30,643	-	125,605	-	156,248
D.1 Total net value adjustments	5,209,817	515,010	-	1,929,477	-	7,654,304
E. Gross closing balance	5,209,817	545,653	-	2,055,082	-	7,810,552
F. Carried at cost	-	-	-	-	-	-

It should be noted that line “F. Carried at cost” was left blank in accordance with Bank of Italy’s instructions, as it only needs to be completed for intangible assets measured at fair value.



9.3 Intangible assets: Other information: amortisation rates for intangible assets

Main categories of intangible assets	%	residual depreciation period
Software	20%-33.3%	

There were none of the following as at 31 December 2023:

- 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 2023	31 12 2022
Receivables (including securitisations)	231,000	-	35,350	-	266,350	203,236
Receivables (L. 214/2011)	182,843	-	20,716	-	203,559	135,988
Other financial instruments	209	-	2,797	-	3,006	3,582
Goodwill deduction pursuant to previous law provisions (L. 214/2011)	239,033	926	58,493	206	298,658	298,658
Property, plant and equipment	129,583	-	19,380	-	148,963	119,009
Intangible assets	80	-	34	-	114	5
Intangible assets (Law 214/2011)	16,732	-	3,634	-	20,366	20,315
Personnel expenses	1,081	4,071	313	8	5,473	22,400
ACE surplus	15,018	-	-	-	15,018	107,469
Tax losses	637,429	48,752	-	-	686,181	195,020
Tax losses (Law 214/2011)	-	-	-	-	-	24
Financial instruments - valuation reserves	-	28,974	-	6,707	35,681	60,711
Others	227,887	-	11,259	-	239,146	210,814
Deferred tax assets (gross)	1,680,895	82,723	151,976	6,921	1,922,515	1,377,231
Offsetting with deferred tax liabilities	(16,581)	(60,212)	(2,199)	(11,864)	(90,856)	(103,045)
Deferred tax assets (net)	1,664,314	22,511	149,777	(4,943)	1,831,659	1,274,186

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 Italian Law no. 208 of 28 December 2015, paragraphs 65-66.

The balance of the item shows an increase during the year; for a quantification of the individual effects, reference should be made to the following paragraphs of this Section.

The line "Receivables" includes the deferred tax assets recognised in relation to the residual tenths of the value adjustments on loans to customers accounted for at the time of first-time adoption of IFRS 9. The line "Other" includes the tax assets relating to provisions for risks and charges for deductible costs expected in future years and other residual cases.



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 2023	Total 31 12 2022
Property, plant and equipment and intangible assets	5,273	46,991	2,086	9,142	63,492	72,655
Financial instruments	7,268	-	113	-	7,381	10,830
Personnel expenses	4,040	477	-	141	4,658	4,112
Financial instruments - valuation reserves	-	11,522	-	2,343	13,865	13,488
Others	-	1,222	-	238	1,460	1,960
Deferred tax liabilities (gross)	16,581	60,212	2,199	11,864	90,856	103,045
Offsetting with deferred tax assets	(16,581)	(60,212)	(2,199)	(11,864)	(90,856)	(103,045)
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 Italian Law no. 208 of 28 December 2015, paragraphs 65-66.

The line “Financial instruments – valuation reserves” includes tax liabilities relating to the valuation of cash flow hedge derivatives, as well as financial instruments classified in the portfolio “Financial assets measured at fair value through other comprehensive income” (OCI).

The balance of the item shows a decrease during the financial year; for the quantification of the individual effects, reference should be made to the following paragraphs of this Section.

**10.3 Deferred tax assets: annual changes (with offsetting entry to profit or loss)**

	Total 31 12 2023	Total 31 12 2022
1. Opening balance	1,250,410	860,277
2. Increases	1,254,000	621,455
2.1 Deferred tax assets arising during the year	909,285	600,746
a) relating to previous years	-	-
b) due to changes in accounting principles	-	-
c) write-backs	827,194	418,441
d) other	82,091	182,305
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	344,715	20,709
3. Decreases	671,538	231,322
3.1 Deferred tax assets derecognised during the year	487,852	191,971
a) reversals	486,250	191,971
b) write-downs of non-recoverable items	1,602	-
c) changes in accounting principles	-	-
d) other	-	-
3.2 Reduction in tax rates	-	-
3.3 Other decreases	183,686	39,351
a) conversion into tax credits pursuant to Law no. 214/2011	8,567	-
b) others	175,119	39,351
4. Total	1,832,872	1,250,410

The major components of “Deferred tax assets arising during the year” as reported in line 2.1 letter d) include those concerning:

- taxed provisions made during the financial year to the provision for risks and charges, equal to EUR 57.3 mln;
- the write-down recorded during the year of owned properties for business use and investment purposes in the amount of EUR 18.2 mln.

The amount shown in line 3.1 letter a) “Reversals” include deferred tax assets relating to:

- uses and reclassifications to the income statement of provisions for risks and charges taxed in previous years in the amount of EUR 205.9 mln;
- the use of ACE surpluses to offset taxable income for the year in the amount of EUR 89.4 mln;
- the use of past tax losses to offset taxable income for the year, in the amount of 89.0 mln;
- the reversal of the portion of value adjustments on loans to customers, deductible during the year pursuant to art. 16 of Italian Law Decree 83/2015 in the amount of EUR 45.7 mln;
- the reversal of the tenth of the value adjustments on loans to customers recognised at the time of first-time adoption of IFRS 9 in the amount of EUR 43.4 mln.

The table shows the effects of the measurement of deferred tax assets based on the results of the probability test conducted as at 31 December 2023. Specifically, the amount indicated on line 2.1 letter c) “Value reversals” added to the amount indicated in table 10.5 line 2.1 letter a), is due to the write-back of prepaid tax assets referring to tax losses accrued and not recognised in previous financial years both with reference to IRES (in the Tax Consolidation Agreement) and to the IRES additional tax (in the individual tax return) for EUR 670.4 mln, to ACE surpluses for EUR 2.4 mln, and to other deductible temporary differences (these are DTAs that cannot be converted into tax credits pursuant to Italian Law 214/2011, such as those relating to provisions for risks and charges, IFRS 9 FTA credit adjustments, etc.) for EUR 154.4 mln. For additional information, please refer to paragraph 10.7 “Other information” below.

The amount shown in line 2.3 “Other increases” includes:

- deferred tax assets from the merger financial statements of the merged companies MPS Leasing & Factoring for EUR 90.3 mln and MPS Capital Services for EUR 150.8 mln;
- the higher DTAs (mainly referring to items other than tax losses) recognised under the Bank’s assets as a balancing entry to the merger surplus following the above-mentioned mergers, compared to the previous situation of stand-alone companies for EUR 90.0 mln.

The amount shown in line 3.3 lett. b) “other decreases - other” includes:



- the DTAs (referring mainly to previous consolidated tax losses), written off from the Bank's assets, as a balancing entry to the merger surplus following the above-mentioned mergers, compared to the previous situation of stand-alone companies for EUR 131.1 mln;
- the DTAs from ACE surpluses accrued in the 2022 tax period and transformed into an IRAP credit in the current year with the submission of the related tax return for EUR 31.7 mln.

The change for the financial year, as shown in this table - difference between final and initial balance - is reconciled with the amount shown in the income statement table 19.1 "Tax (expense)/recovery on income from continuing operations: breakdown" in the line 'changes in deferred tax assets' given that:

- the amounts of EUR 90.3 and EUR 150.8 mln relating to the balances deriving from the merger financial statements, respectively, of MPS Leasing & Factoring and MPS Capital Services, although represented in this table as increases, did not have a balancing entry in the income statement;
- the amounts of EUR 90.0 and EUR 131.1 mln relating to deferred tax assets, respectively, recognised and derecognised by the Bank to adjust the financial statement balances of the DTAs to the new post-incorporation structure, although they are shown in this table as increases and decreases, were offset by equity (merger surplus);
- the amount of EUR 31.7 mln related to the transformation of DTAs from ACE surpluses accrued in 2022 into IRAP credit with the tax return filed in the financial year, although represented in this table as a decrease, did not have the item Taxes as a balancing entry in the Income Statement;
- the amount of EUR 1.6 mln, portion of the DTA revaluation 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, shown as an increase in Table 10.5 below;
- the amount of EUR 2.0 mln referring in total to other residual changes in the DTAs, which, although shown in this table, did not have a balancing entry in the income statement.

10.3-bis Deferred tax assets: changes under Italian Law 214/2011 (with offsetting entry to profit or loss)

Items/Amounts	Total	
	31 12 2023	31 12 2022
1. Opening balance	453,853	453,683
2. Increases	122,447	193
3. Decreases	54,849	23
3.1 Reversals	45,654	23
3.2 Conversion into tax credits	8,567	-
a) arising from loss for the period	8,547	-
b) arising from tax losses	20	-
3.3 Other decreases	628	-
4. Closing balance	521,451	453,853

The amount shown in line 2 "Increases" refers for EUR 39.8 mln and EUR 82.0 mln to the balances resulting from the mergers by incorporation of MPS Leasing & Factoring and MPS Capital Services, respectively.

As a result of the loss recorded in the separate financial statements for 2022, in 2023 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 Italian Law Decree no. 225 of 29 December 2010. This conversion has been in effect since the date of approval of the 2022 financial statements by the Shareholders' Meeting held on 20 April 2023.

**10.4 Deferred tax liabilities: changes (with offsetting entry to profit or loss)**

	Total 31 12 2023	Total 31 12 2022
Opening balance	20,536	24,947
2. Increases	4,905	11,651
2.1 Deferred tax liabilities arising during the year	1,140	10,776
a) relating to previous years	-	-
b) due to changes in accounting principles	-	-
c) other	1,140	10,776
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	3,765	875
3. Decreases	6,661	16,062
3.1 Deferred taxes derecognised during the year	4,710	8,605
a) reversals	4,710	8,605
b) due to changes in accounting principles	-	-
c) other	-	-
3.2 Reduction in tax rates	-	-
3.3 Other decreases	1,951	7,457
4. Closing balance	18,780	20,536

10.5 Deferred tax assets: changes (with offsetting entry to equity)

	Total 31 12 2023	Total 31 12 2022
1. Opening balance	126,821	63,242
2. Increases	13,112	67,592
2.1 Deferred tax assets arising during the year	4,797	67,530
a) relating to previous years	1,602	4,687
b) due to changes in accounting principles	-	-
c) other	3,195	62,843
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	8,315	62
3. Decreases	50,289	4,013
3.1 Deferred tax assets derecognised during the year	50,126	3,962
a) reversal	50,126	3,962
b) write-downs of non-recoverable items	-	-
c) due to changes in accounting principles	-	-
d) other	-	-
3.2 Reduction in tax rates	-	-
3.3 Other decreases	163	51
4. Closing balance	89,644	126,821

The amount shown in line 2.3 “Other increases” refers almost entirely to the balances deriving from the merger by incorporation of MPS Capital Services.

The cancelled deferred tax assets refer mainly to write-backs on financial instruments classified in the portfolio “Financial assets measured at fair value through other comprehensive income” (OCI).



10.5-bis Deferred tax assets: changes under Italian Law 214/2011 (with offsetting entry to equity)

Items/Amounts	Total	
	31 12 2023	31 12 2022
1. Opening balance	1,132	1,132
2. Increases	-	-
3. Decreases	-	-
3.1 Reversals	-	-
3.2 Conversion into tax credits	-	-
a) arising from loss for the year	-	-
b) arising from tax losses	-	-
3.3 Other decreases	-	-
4. Closing balance	1,132	1,132

The table shows deferred tax assets that may be converted into tax credits pursuant to Italian Law 214/2011, recognised with an offsetting entry to equity. This refers to goodwill charged by the Bank to shareholders' equity as it relates to past business combinations under common control.

10.6 Deferred tax liabilities: changes (with offsetting entry to equity)

	Total	Total
	31 12 2023	31 12 2022
1. Opening balance	82,509	112,172
2. Increases	4,362	1,048
2.1 Deferred tax liabilities arising during the year	4,145	479
a) relating to previous years	-	-
b) due to changes in accounting principles	-	-
c) other	4,145	479
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	217	569
3. Decreases	14,795	30,711
3.1 Deferred tax liabilities derecognised during the year	13,809	30,108
a) reversal	13,809	30,108
b) due to changes in accounting principles	-	-
c) other	-	-
3.2 Reduction in tax rates	-	-
3.3 Other decreases	986	603
4. Closing balance	72,076	82,509

The decreases shown in line 3.1, letter a) refer primarily to reabsorption of deferred tax liabilities, recognised in previous financial years, related to land and buildings, IAS 16, and cash flow hedge derivatives that occurred during the financial year.



10.7 Other information

Probability test

In compliance with the provisions of IAS 12 and the ESMA communication issued on 15 July 2019, the Bank has recognised deferred tax assets (DTA), subject to verification of the existence of sufficient future taxable income for the purposes of their reabsorption (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 Italian Law Decree no. 225 of 29 December 2010 (converted, with amendments, by Italian Law no. 10 of 26 February 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;
- paragraphs 61 to 66, art. 1, of the 2016 Stability Law (Italian Law no. 208 of 28 December 2015) reduced the IRES rate from 27.5% to 24% and simultaneously introduced an IRES additional tax of 3.5% for credit and financial institutions; both measures are effective as of 2017.

In particular, the valuation of the DTAs in these financial statements is affected by the repeal of the ACE provided for by art. 5 of Italian Legislative Decree 216 of 30 December 2023 with effect from 2024. The MPS Group, having carried out significant capital increases from 2011 to 2022, accrued significant amounts of ACE deductions and had the prospect of accruing them in the future, considering that the legislation establishing the subsidy in question was in force indefinitely. The MPS Group has also incurred significant consolidated tax losses in the past, in particular in 2016 and 2017, the residual amount of which as at 31 December 2023 was EUR 12.1 bn; these tax losses can be carried forward for offsetting with future taxable income without limits of amount and time and constitute the prerequisite for the recognition in the financial statements of corresponding DTAs, after verifying the existence of future taxable income. Tax losses may, however, be set off against future taxable income determined each year net of deductible portions of costs deferred from prior years (e.g., portions of loan adjustments, amortisation of goodwill and other intangible assets, etc.) and, for group taxation entities, also against the available ACE deduction. In its recent financial statements, the Bank has recognised DTAs on tax losses to a minimal extent with respect to their nominal value, given that the prospective taxable income considered in the valuation time period was largely absorbed by the reversals of the deferred costs and the ACE deductions. As a result of the repeal of the ACE, the corresponding deductions accrued from 2024 onwards were no longer valid, with the consequent loss of a substantial economic benefit in terms of reduction of the tax rate in the financial statements. Nevertheless, the elimination of this benefit resulted in an increase in the ability to use said losses in the future and therefore a partial reversal of the related DTAs as a balancing entry to a non-recurring income in the income statement item, equal to EUR 545.2 mln. In other terms, future taxable income, considered over the valuation horizon, while remaining insufficient to fully recover the consolidated tax losses already accrued, increased as a result of the repeal of the ACE.

In terms of methodology, the probability test was carried out by following the steps listed below.

DTAs relating to goodwill, other intangible assets and impairment losses and adjustments 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 Italian 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 financial year in which the recovery of qualified DTAs is expected is not sufficient to absorb them, the resulting tax loss would be convertible into a tax credit that may be, alternatively i) used to offset, with no amount limits, the various taxes ordinarily due from the Bank, or ii) requested in the form of a refund, or iii) transferred to third parties. In addition, qualified DTAs may be converted into tax credit in advance of their natural maturity, in the event of a loss for the year in the statutory financial statements or voluntary liquidation, as well as subjection to bankruptcy proceedings.

In other words, for qualified DTAs the Probability test must be deemed automatically satisfied; this is also confirmed by the joint Bank of Italy, CONSOB and ISVAP document no. 5 of 15 May 2012 “Accounting treatment of deferred tax assets deriving from Italian Law 214/2011”.

For DTAs other than qualified DTAs, the financial year in which the relative recovery is expected has been identified (or estimated when uncertain).



Estimates of taxable income for future financial years were made, consistent with the other relevant corporate valuation processes, on the basis of the expected evolution of the Bank's profit and loss accounts derived from the income projections included in the 2022-2026 Group Business Plan, approved by the Bank's Board of Directors on 22 June 2022. However, it should be noted that, from a prudential perspective, for the purposes of this assessment, the economic results of 2025 and 2026 outlined in the aforementioned Business Plan were not considered, thus limiting the expected positive evolution in future periods to that resulting from the data forecast for 2024; for the estimate of taxable income for the financial years after 2026, a growth of 1.35% was assumed for each year starting from 2027 compared to the economic result forecast for the immediately previous financial year.

In order to reflect the level of uncertainty that characterises the actual realisation of long-term forecasts, a discount factor was applied to the forecast economic results (known as Risk-adjusted profits approach) of 9%, unchanged from that used for the Financial Statements as at 31 December 2022. This factor is calculated also taking into account observable market parameters. In greater detail, the adjustment of taxable income is obtained by discounting the forecasts of each year by the factor of 9%, applied according to the compound capitalisation formula, starting from 2024 over a maximum time period of 20 years. This formula therefore makes it possible to adjust future forecasts according to an increasing reduction factor based on the time horizon of the estimate of taxable flows.

Taxable incomes were therefore estimated:

- at domestic tax consolidation level, for the IRES Probability test, since the Bank pays this tax as set forth in arts. 117 et seq. of the Income Tax Act;
- at individual level for IRES additional tax;
- at individual level for IRAP.

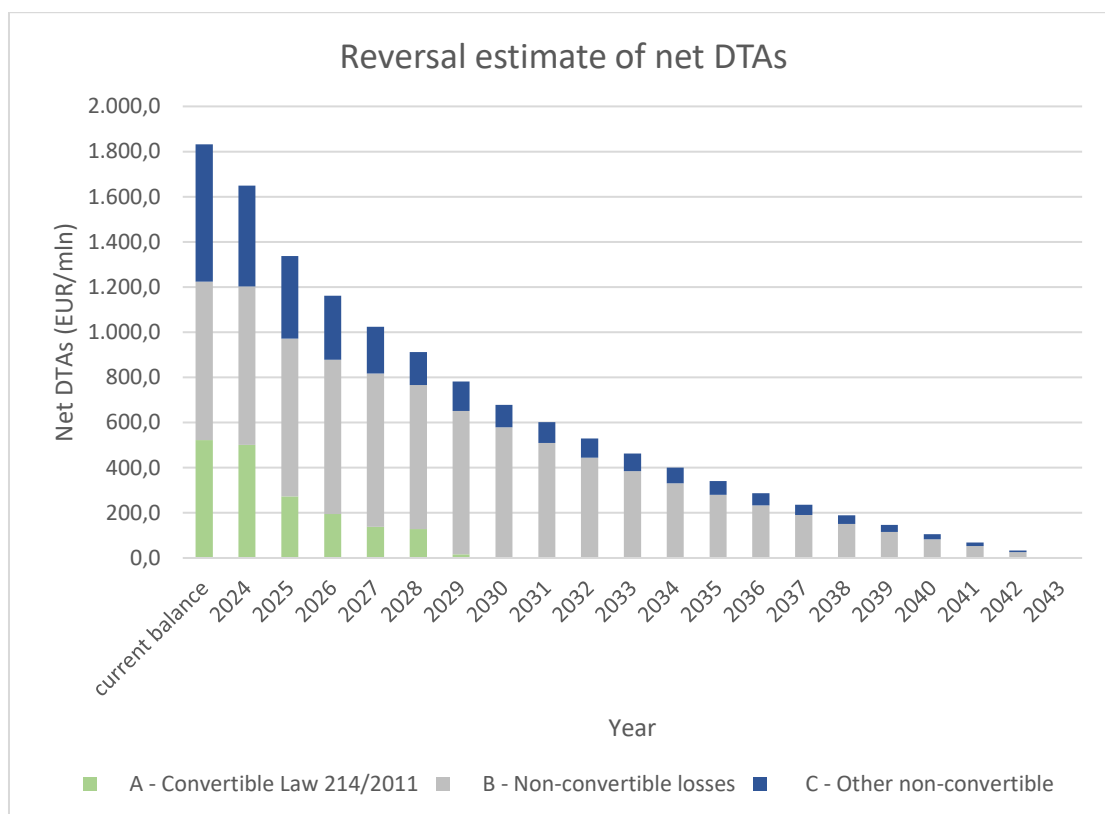
The valuation exercise conducted with the model described above has resulted in an overall increase in value of DTAs for EUR 827.2 mln, with the following effects on the Bank's accounts:

- with reference to the DTAs for previous consolidated tax losses, a revaluation of EUR 639.1 mln (of which EUR 545.2 mln due to the repeal of the ACE);
- with reference to DTAs for previous tax losses for purposes of additional IRES, a revaluation of EUR 31.3 mln;
- with reference to DTAs for ACE surpluses, a revaluation of EUR 2.4 mln;
- with regard to DTAs other than "qualified" DTAs and those relating to ACE and tax losses, a total recovery in value equal to EUR 154.4 mln.

As a result of the aforementioned valuation, the Bank had DTAs not stated as assets in the Balance Sheet, totalling EUR 2,575.7 mln as at 31 December 2023 (EUR 3,296.6 mln as at 31 December 2022).

For the Bank, this amount is a potential asset not subject to any time limits according to current tax legislation, with the exception of the limits to carrying forward, in case of extraordinary transactions, envisaged by art. 172 and 173 of Italian Presidential Decree no. 917/1986; the relative recognition in balance sheet assets will be evaluated at the future reporting dates based on the Bank's and the Group's profit outlook.

The Group's tax losses, equal to EUR 12,103 mln, was accrued mainly in 2016 and 2017, corresponding to the start of the Bank's restructuring process, and derives essentially from significant loan adjustments for both years. In particular, for 2016 the methodologies and parameters used in measuring loans had to be updated and for 2017 the realisable value of non-performing loans sold during 2018 had to be adjusted. Therefore, pursuant to the provisions of IAS 12, paragraph 36, letter c), also taking into account the Banks' and the Group's high profitability, it is believed that these unused tax losses derive from "*identifiable causes that are unlikely to recur*" and in this sense have been included in the valuation process for DTAs that can be partially recognised in financial statements. The following chart shows the expected trend related to the recovery of DTAs recognised in the Financial Statements as at 31 December 2023, both quantitatively and over time, broken down between convertible DTAs pursuant to Italian Law 214/2011, DTAs from non-convertible losses and other non-convertible DTAs.



The probability test model in use in MPS Group includes some input data whose fluctuations in value can significantly influence the final result of the DTA valuation recognised in financial statements. Specifically, these are:

- 1) taxable income forecast in the plan's final year (2024)⁸³;
- 2) discount rate of future results (coefficient used in the risk-adjusted profits approach);
- 3) tax rates for IRES, IRES additional tax and IRAP.

Certain relevant indications on the sensitivity of the results of the valuation model are provided below, assuming both an increase and decrease in each of the input data listed above. The effects shown in the table refer to the difference that would have occurred for the tax item of the 2023 income statement, compared to what was actually recognised, changing the individual variable as indicated; the change in taxable income is understood to apply to the amount indicated for each financial year of the time horizon (twenty years) considered in the probability test.

Inputs	Decreases	Effect on income statements of decrease in DTAs (Eur/mln)		Increases	Effect on income statements of increase in DTAs (Eur/mln)	
		DTAs (Asset item 100 b)	Payables to tax consolidation (Liabilités item 80)		DTAs (Asset item 100 b)	Payables to tax consolidation (Liabilités item 80)
Taxable income starting from 2024	-100 mln	-166.8	0.0	+100 mln	169.3	0.0
Discount rate of prospective results	-1%	97.3	0.0	+1%	-84.1	0.0
IRES tax rate	-1%	-61.0	0.4	+1%	61.0	-0.4

⁸³ Considering that in the probability test as at 31 December 2023, the economic results of 2025 and 2026 (the last year of the plan time period) were conservatively assumed to be equal to the (lower) expected result for 2024, the latter can essentially be considered as the decisive input for the fluctuation in the value of the DTAs in question. Consequently, the sensitivity of the results of the valuation model illustrated below was obtained by assuming the change in taxable income in 2024.



Current tax assets

Items/Amounts	Total	Total
	31 12 2023	31 12 2022
Prepayments of corporate income tax (IRES and IRAP)	-	-
Other tax credits and withholdings	374,717	442,713
Gross current tax assets	374,717	442,713
Offsetting with current tax liabilities	(66,349)	-
Net current tax assets	308,368	442,713

In 2023, the Bank did not pay any advance payments for IRES, IRES additional tax and IRAP, having closed the previous tax period in a negative taxable income situation with reference to all the aforementioned taxes; no advance payments were also made on behalf of the companies merged during the year, either due to a negative taxable income situation in the previous tax period (MPS Capital Services) or due to the presence of excess payments carried forward from previous tax returns (MPS Leasing & Factoring).

“Other tax credits and withholdings” consist of IRES/IRAP credits resulting from prior tax returns which can be used to offset EUR 165.4 mln, income tax credits claimed for refund for EUR 188.1 mln, the remaining portion still to be used of the tax credit arising from DTA transformation (Italian Law no. 214/2011) for EUR 16.6 mln and withholdings incurred totalling EUR 4.6 mln.

Current tax liabilities

Items/Amounts	31 12 2023			31 12 2022		
	Booked to net equity	Booked to P&L	Total	Booked to net equity	Booked to P&L	Total
Corporate income tax (IRES IRAP) payables	(14,069)	80,418	66,349	-	-	-
Other current income tax payables	-	4	4	-	5	5
Gross current tax payables	(14,069)	80,422	66,353	-	5	5
Offsetting with current tax asset	(1,767)	68,116	66,349	-	-	-
Net current tax payables	(12,302)	12,306	4	-	5	5



Section 11 - Non-current assets held for sale and disposal groups and associated liabilities - Item 110 (assets) and 70 (liabilities)

11.1 Non-current assets held for sale and disposal groups: breakdown by type of assets

	Total	
	31 12 2023	31 12 2022
A. Individual assets		
A.1 Financial assets	457	46
A.2 Equity investments	-	-
A.3 Tangible assets	75,775	65,451
<i>of which: obtained through the enforcement of the guarantees received</i>		
A.4 Intangible assets	-	-
A.5 Other non-current assets	-	-
Total A	76,232	65,497
<i>of which valued at cost</i>	-	-
<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>	76,232	65,497
B. Asset groups (discontinued operations)		
C. Liabilities associated with individual assets held for sale		
D. Liabilities associated with discontinued operations		

Line “A.1 Financial assets”, amounting to EUR 0.5 mln, refers entirely to the sale of an equity security, the closing of which is expected within the first half of 2024.

Line “A.3 Tangible assets”, equal to EUR 75.8 mln, includes tangible assets held for investment purposes for EUR 45.0 mln, as well as tangible assets held for functional use in the amount of EUR 29.7 mln, and other tangible assets for EUR 0.2 mln. The same item also includes EUR 0.9 mln relating to works of art classified under IAS 16 and EUR 0.2 mln relating to inventories of tangible assets classified under IAS 2.

In February 2024, the sale of a property, including the works of art therein, was finalised, classified as at 31 December 2023 among assets under disposal for a total value of EUR 30.0 mln.

At the reporting date or for the financial 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 2023	Total 31 12 2022
Tax credits from the Revenue and other tax levying authorities	1,869,974	978,063
Third party cheques held at the cashier's for collection	5,673	3,638
Cheques drawn on the Company held at the cashier's for collection	982	717
Gold, silver and precious metals	95,369	100,100
Items in transit between branches	2,638	567
Items in processing	714,837	462,762
Receivables associated with the provision of goods and services	5,779	6,597
Improvements and incremental costs on third party assets other than those included under tangible assets	15,715	30,557
Prepaid expenses and accrued income not attributable to other line items	487,688	468,713
Credits for consolidated income tax return	95	97
Others	252,529	149,589
Total	3,451,279	2,201,400

The lines "Items in processing" and "Other" include transactions which were cleared in early 2024.

The line "Tax credits from the Revenue and other tax levying authorities" includes EUR 1,660.3 (EUR 738.2 mln as at 31 December 2022) pertaining to tax credits, pursuant to the "Rilancio" Italian Law Decree acquired as a result of a transfer by direct beneficiaries or previous purchasers.

The line "Accrued income and prepaid expenses not attributable to its own separate item" includes a total of EUR 225.8 mln (EUR 228.6 mln as at 31 December 2022) as prepaid expenses for back office services outsourced, provided by suppliers continuously over the contract term and financially settled by the Bank with decreasing amounts over time. For further details on the methods for identifying these types of services, please refer to Part A, paragraph "Other Information - Costs for constant services and decreasing payments" of these Notes to the Financial Statements.

The table above does not include cases attributable to the definitions of "contract assets" and "contract liabilities" at either the reporting date or for the comparison financial year, which would require disclosure pursuant to IFRS 15.116 and 118.



LIABILITIES

Section 1 - Financial liabilities measured at amortised cost - Item 10

1.1 Financial liabilities measured at amortised cost: breakdown of deposits from banks

Items/accounts	Total 31 12 2023				Total 31 12 2022			
	Book value	Fair value			Book value	Fair value		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
1. Due to central banks	13,148,229	X	X	X	19,176,864	X	X	X
2. Due to banks	4,942,288	X	X	X	7,032,983	X	X	X
2.1 Current accounts and demand deposits	2,546,250	X	X	X	2,894,911	X	X	X
2.2 Time deposits	1,335,244	X	X	X	2,582,096	X	X	X
2.3 Loans	185,621	X	X	X	563,656	X	X	X
2.3.1 Repurchase agreements	138,188	X	X	X	537,264	X	X	X
2.3.2 Other	47,433	X	X	X	26,392	X	X	X
2.4 Liabilities for commitments to repurchase own equity instruments	-	X	X	X	-	X	X	X
2.5 Debts for leasing	426	X	X	X	428	X	X	X
2.6 Other liabilities	874,747	X	X	X	991,892	X	X	X
Total	18,090,517	-	18,090,517	-	26,209,847	-	26,209,847	-

The balance of the item “Due to central banks” of EUR 13.1 bn (EUR 19.2 bn as at 31 December 2022) refers to funding from the ECB consisting of TLTRO III loans for EUR 5.6 bn and two short-term loans (MRO/LTRO) for a total of EUR 7.5 bn subscribed in two auctions in 2023. The reduction of EUR 6.1 bn is due to the repayment of the tranche maturing in June and September 2023 for a total of EUR 14 bn, partly offset by the aforementioned MRO/LTRO auctions.

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 2023				Total 31 12 2022			
	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	62,198,837	X	X	X	61,868,170	X	X	X
2. Time deposits	3,942,693	X	X	X	4,159,847	X	X	X
3. Loans	9,063,216	X	X	X	1,387,769	X	X	X
3.1 Reverse repurchase agreements	6,565,131	X	X	X	-	X	X	X
3.2 Others	2,498,085	X	X	X	1,387,769	X	X	X
4. Liabilities for commitments to repurchase own equity instruments	-	X	X	X	-	X	X	X
5. Debts for leasing	167,614	-	-	-	184,496	-	-	-
6. Other liabilities	1,113,130	X	X	X	479,594	X	X	X
Total	76,485,490	-	76,485,490	-	68,079,876	-	68,079,876	-

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. These transactions are the result of the merger by incorporation of the subsidiary MPSCS in May 2023.

1.3 Financial liabilities measured at amortised cost: breakdown of debt securities issued

Type of Securities/ Amounts	Total 31 12 2023				
	Book value	Fair value			Total
		Level 1	Level 2	Level 3	
A. Listed securities					
1. Bonds	9,989,737	8,734,996	1,411,629	-	10,146,625
1.1 Structured	-	-	-	-	-
1.2 Other	9,989,737	8,734,996	1,411,629	-	10,146,625
2. Other securities	136,282	-	136,282	-	136,282
2.1 Structured	-	-	-	-	-
2.2 Other	136,282	-	136,282	-	136,282
Total	10,126,019	8,734,996	1,547,911	-	10,282,907

The table shows funding represented by securities, including bonds and certificates of deposit (outstanding and expired) to be repaid.

Liabilities are net of bonds and repurchased CDs. In this regard, it should be noted that as at 31 December 2023, as in the previous financial year, the Bank has no outstanding issues with a State guarantee.

The table includes EUR 3,458.3 mln in liabilities subject to fair value micro-hedging (EUR 5,138.5 mln as at 31 December 2022), to hedge interest rate risk.



Type of Securities/ Amounts	Total				
	31 12 2022				
	Book value	Fair value			
Level 1		Level 2	Level 3	Total	
A. Listed securities					
1. Bonds	8,525,377	4,257,885	3,980,080	-	8,237,965
1.1 Structured	-	-	-	-	-
1.2 Other	8,525,377	4,257,885	3,980,080	-	8,237,965
2. Other securities	7,201	-	7,201	-	7,201
2.1 Structured	-	-	-	-	-
2.2 Other	7,201	-	7,201	-	7,201
Total	8,532,578	4,257,885	3,987,281	-	8,245,166

1.4 Details of subordinated liabilities/securities

Type/Item	Issue Date	Maturity Date	Early termination	Grandfathering	Currency	Rate	Step up	31 12 2023		31 12 2022	
								Nominal value	Book value	Nominal value	Book value
Details of deposits from banks-subordinated liabilities								-	-	-	-
Details of deposits from customers-subordinated liabilities								-	-	-	-
Details of debt securities issued subordinated liabilities											
Subordinated Bond	18/01/18	18/01/28	18/01/23	NO	Eur	5.375% fixed*	NO	750,000	820,993	750,000	787,984
Subordinated Bond	23/07/19	23/07/29	NO	NO	Eur	10.5% fixed	NO	300,000	311,448	300,000	311,218
Subordinated Bond	22/01/20	22/01/30	22/01/25	NO	Eur	8.0% fixed	NO	400,000	427,992	400,000	427,774
Subordinated Bond	10/09/20	10/09/30	10/09/25	NO	Eur	8.5% fixed	NO	300,000	304,179	300,000	303,836
Total								1,750,000	1,864,611	1,750,000	1,830,812

*5.375% until 18 January 2023, subsequently 5Y EUR mid-swap rate + 5.005%

1.5 Details of structured liabilities

This table was not completed as the Bank has no such liabilities to report for either the current or the previous year.

1.6 Lease payables

Type of transaction/Amount	Total 31 12 2023	Total 31 12 2022
Leasing debts	177,856	201,551
Payments due included in the lease liabilities not discounted up 5 years	136,808	166,959
Up to 1 month	6,034	7,421
From 1 to 3 months	4,460	4,528
From 3 months to 1 year	29,322	33,203
From 1 year to to 5 year	96,993	121,807
Total cash flow out for leasing over 5 years	41,047	34,592

The table shows the non-discounted outgoing cash flows for lease liabilities broken down by time bracket.



Section 2 - Financial liabilities held for trading - Item 20

2.1 Financial liabilities held for trading: breakdown

Type of transaction/ Group item	Total 31 12 2023					FV*
	NV	FV				
		Level 1	Level 2	Level 3	Total	
A. Balance-sheet liabilities						
1. Due to banks	451,366	442,450	-	-	442,450	442,450
2. Due to customers	1,323,784	1,380,748	-	-	1,380,748	1,380,748
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	1,775,150	1,823,198	-	-	1,823,198	1,823,198
B. Derivatives						
1. Financial derivatives		-	987,654	2,868	990,522	
1.1 Trading	X	-	987,654	2,868	990,522	X
1.2 Fair value option (FVO)	X	-	-	-	-	X
1.3 Other	X	-	-	-	-	X
2. Credit derivatives		-	92,020	-	92,020	
2.1 Trading	X	-	92,020	-	92,020	X
2.2 Fair value option (FVO)	X	-	-	-	-	X
2.3 Other	X	-	-	-	-	X
Total B	X	-	1,079,674	2,868	1,082,542	X
Total (A+B)	1,775,150	1,823,198	1,079,674	2,868	2,905,740	X

key

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 criteria adopted for classification of financial instruments in the three levels of the “fair value hierarchy” are reported in Section A.4, “Information on fair value” of Part A, “Accounting policies” of the notes to the financial statements.

The amounts classified in lines “1. Deposits from banks” and “2. Due to customers” are valued as at 31 December 2023 following the merger of the subsidiary MPSCS and are mainly related to those in lines “1. Debt securities” and “4. Loans” in table 2.1 of the assets “Financial assets held for trading”. Please also note that the sub-items “Deposits from banks” and “Deposits from customers”, mentioned above, also incorporate uncovered short positions. They are designated at fair value in line with the method applied for “long” positions.

The fair value shown in the table in line B1.1.1 “Financial derivatives for trading” includes value adjustments owing to changes in the Bank’s creditworthiness, Debit Value Adjustment (DVA), amounting to EUR 9.3 mln (EUR 18.2 mln as at 31 December 2022).



Type of transaction/ Group item	NV	Total 31 12 2022				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		-	577,679	-	577,679	
1.1 Trading	X	-	575,379	-	575,379	X
1.2 Fair value option (FVO)	X	-	2,300	-	2,300	X
1.3 Other	X	-	-	-	-	X
2. Credit derivatives		-	3,597	-	3,597	
2.1 Trading	X	-	3,597	-	3,597	X
2.2 Fair value option (FVO)	X	-	-	-	-	X
2.3 Other	X	-	-	-	-	X
Total B	X	-	581,276	-	581,276	X
Total (A+B)	-	-	581,276	-	581,276	X

key

NV = Nominal or Notional Value

FV = Fair value

FV*= Fair value calculated excluding value adjustments due to variations in the credit rating of the issuer since the date of issue

2.2 Details of item 20 “Financial liabilities held for trading”: subordinated liabilities

This table was not completed as the Bank has no such liabilities to report for either the current or the previous year.

2.3 Details of item 20 “Financial liabilities held for trading”: structured liabilities

This table was not completed as the Bank has no such liabilities to report for either the current or the previous year.



Section 3 - Financial liabilities measured at fair value - Item 30

3.1 Financial liabilities measured at fair value: breakdown

Type of transaction / Amount	Total 31 12 2023					
	NV	FV				FV*
		Level 1	Level 2	Level 3	Total	
1. Deposits from banks	-	-	-	-	-	-
2. Deposits from customers	-	-	-	-	-	-
3. Debt securities issued	70,441	-	111,325	-	111,325	123,789
3.1 Structured	-	-	-	-	-	X
3.2 Other	70,441	-	111,325	-	111,325	X
Total	70,441	-	111,325	-	111,325	123,789

key

NV = Nominal or Notional Value

FV = Fair Value

FV* = Fair value calculated excluding value adjustments due to variations in the credit rating of the issuer since the date of issue

The table shows the financial liabilities represented by fixed-rate and structured bonds which have been classified at fair value and are systematically subject to hedging. Hedging occurs through derivative contracts and is used to cover the risk of interest rate fluctuations and the risk resulting from embedded options.

The fair value option has been adopted for fixed-rate and structured debt securities issued by the Bank, for which the risk of fair value changes has been hedged by derivatives upon issuance, with the aim of maintaining the hedge for the contractual duration of the hedged securities; derivatives used under the fair value option are classified in the trading book.

Funding subject to hedging with derivative instruments under the fair value option is thus measured at fair value, in accordance with all the relative hedging derivatives which, for the purposes of the financial statements, have been classified under specific sub-items in the trading book.

In the income statement, positive and negative spreads or margins relative to derivative contracts until the reporting 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 or loss” 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 or loss by a change in the fair value of another financial instrument measured at fair value through profit or loss for the year.

Type of transaction / Amount	Total 31 12 2022					
	NV	FV				FV*
		Level 1	Level 2	Level 3	Total	
1. Deposits from banks	-	-	-	-	-	-
2. Deposits from customers	-	-	-	-	-	-
3. Debt securities issued	86,495	-	124,289	-	124,289	145,368
3.1 Structured	-	-	-	-	-	X
3.2 Other	86,495	-	124,289	-	124,289	X
Total	86,495	-	124,289	-	124,289	145,368

key

NV = Nominal or Notional Value

FV = Fair Value

FV* = Fair value calculated excluding value adjustments due to variations in the credit rating of the issuer since the date of issue

**3.1.a Financial liabilities measured at fair value: fair value option approach**

All liabilities for which the fair value option was adopted refer to natural hedges through debt security derivatives for a book value of EUR 111.3 mln (EUR 124.3 mln as at 31 December 2022).

3.1.b Financial liabilities measured at fair value: structured debt securities

This statement is not completed because for both the current year and the comparative year, the Bank has no structured bonds issued and subject to fair value measurement.

3.2 Breakdown of “Financial liabilities designated 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 hedging and underlying asset**

	Fair value 31 12 2023				NV
	Level 1	Level 2	Level 3	Total	
A. Financial derivatives	-	321,090	-	321,090	3,352,076
1) Fair value	-	321,090	-	321,090	3,352,076
2) Cash flows	-	-	-	-	-
3) Foreign investments	-	-	-	-	-
B. Credit derivatives	-	-	-	-	-
1) Fair value	-	-	-	-	-
2) Cash flows	-	-	-	-	-
Total	-	321,090	-	321,090	3,352,076

key

NV = Nominal or Notional Value

The table displays the negative 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 2 - Market risks in Part E - Information on risks and hedging policies.

	Fair value 31 12 2022				NV
	Level 1	Level 2	Level 3	Total	
A. Financial derivatives	-	301,491	-	301,491	3,815,574
1) Fair value	-	301,491	-	301,491	3,815,574
2) Cash flows	-	-	-	-	-
3) Foreign investments	-	-	-	-	-
B. Credit derivatives	-	-	-	-	-
1) Fair value	-	-	-	-	-
2) Cash flows	-	-	-	-	-
Total	-	301,491	-	301,491	3,815,574

key

NV = Nominal or Notional Value



4.2 Hedging derivatives: breakdown by hedged portfolios and type of hedging

Transaction/Type of hedge	Fair Value						Cash flow Hedge			Foreign investments	Total 31 12 2023
	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 measured at fair value through other comprehensive income	382	-	-	-	X	X	X	-	X	X	382
2. Financial assets measured at amortised cost	244,676	X	42,905	-	X	X	X	-	X	X	287,581
3. Portfolio	X	X	X	X	X	X	33,127	X	-	X	33,127
4. Other transactions	-	-	-	-	-	-	X	-	X	-	-
Total assets	245,058	-	42,905	-	-	-	33,127	-	-	-	321,090
1. Financial liabilities	-	X	-	-	-	-	X	-	X	X	-
2. Portfolio	X	X	X	X	X	X	-	X	-	X	-
Total liabilities	-	-	-	-	-	-	-	-	-	-	-
1. Expected transactions	X	X	X	X	X	X	X	-	X	X	-
2. Financial assets and liabilities portfolio	X	X	X	X	X	X	-	X	-	-	-
Total	245,058	-	42,905	-	-	-	33,127	-	-	-	321,090

The tables show the negative fair values of hedging derivatives, classified by hedged assets or liabilities and type of hedging implemented.

In particular, on the assets side, fair value micro-hedging was used to hedge against interest rate risk on bonds classified in the portfolio “*Financial assets measured at fair value through other comprehensive income*” and on securities and loans classified in the portfolio “*Financial assets measured at amortised cost*”, in order to protect them from unfavourable interest rate changes. Fair value macro-hedging was carried out on fixed-rate and cap/floor 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 to the financial statements for each section of the balance sheet items to which the hedged items are posted.



Transaction/Type of hedge	Fair Value						Cash flow Hedge			Foreign investments	Total 31 12 2022
	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 measured at fair value through other comprehensive income	3,444	-	-	-	X	X	X	-	X	X	3,444
2. Financial assets measured at amortised cost	206,476	X	54,861	-	X	X	X	-	X	X	261,337
3. Portfolio	X	X	X	X	X	X	36,710	X	-	X	36,710
4. Other transactions	-	-	-	-	-	-	X	-	X	-	-
Total assets	209,920	-	54,861	-	-	-	36,710	-	-	-	301,491
1. Financial liabilities	-	X	-	-	-	-	X	-	X	X	-
2. Portfolio	X	X	X	X	X	X	-	X	-	X	-
Total liabilities	-	-	-	-	-	-	-	-	-	-	-
1. Expected transactions	X	X	X	X	X	X	X	-	X	X	-
2. Financial assets and liabilities portfolio	X	X	X	X	X	X	-	X	-	-	-
Total	209,920	-	54,861	-	-	-	36,710	-	-	-	301,491

Section 5 - Changes in value of macro-hedged financial liabilities - Item 50

5.1 Change in value of hedged liabilities: breakdown by hedged portfolios

Change in value of macro-hedged financial liabilities/ Values	Total 31 12 2023	Total 31 12 2022
1. Positive fair value change of financial liabilities	-	-
2. Negative fair value change of financial liabilities	(16,081)	(77,363)
Total	16,081	(77,363)

The balance of changes in value of the liabilities subject to macro-hedging of interest rate risk is recognised in this item.

The decrease in the value adjustment of financial liabilities subject to macro hedging is due to the sharp rise in market rates during the financial year which resulted in a decrease in the fair value of the financial liabilities against increases in the value of the related hedging derivatives.

Section 6 – Tax liabilities – Item 60

For comments on tax liabilities please refer to “Section 10 - Tax assets and tax liabilities” of the balance sheet assets.

Section 7 – Liabilities associated with disposal groups – Item 70

For the details of the liabilities associated with disposal groups, please refer to “Section 11 - Non-current assets and disposal groups and associated liabilities” of the balance sheet assets.



Section 8 – Other liabilities – Item 80

8.1 Other liabilities: breakdown

	Total 31 12 2023	Total 31 12 2022
Due to the Revenue and other tax levying authorities	212,724	158,704
Due to social security authorities	739,130	965,004
Amounts available to customers	95,871	105,611
Other amounts due to employees	9,160	11,656
Items in transit between branches	6,736	1,378
Items in processing	946,361	503,997
Payables in relation to the payment of supplies of goods and services	183,607	107,651
Accrued expenses and unearned revenues not attributable to other line items	38,764	30,018
Payables for consolidated income tax return	3,472	496,013
Other	954,371	859,991
Total	3,190,196	3,240,023

Sub-items “Items in processing” and “Other” include transactions which were cleared during the first days of 2024.

The amount recognised under the sub-item “Payables to social security institutions” includes the funding of EUR 680,8 mln in favour of the Solidarity Fund, net of the payment of the related contribution portion, made by the Bank for the management of staff reduction.

The reduction recognized in the line “Payables for tax consolidation” is attributable to the exit from the tax consolidation regime of the subsidiaries MPSCS and MPSLF merged by incorporation into Banca MPS, which resulted in the offsetting of payables/receivables between the Parent Company (consolidating company) and the subsidiaries (consolidated).

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 2023	Total 31 12 2022
A. Opening balance	66,238	153,827
B. Increases	5,651	2,814
B.1 Provision for the year	2,689	2,656
B.2 Other increases	2,962	158
C. Decreases	2,953	90,404
C.1 Severance payments	2,641	75,809
C.2 Other decreases	312	14,595
D. Closing balance	68,936	66,238

9.2 Other information

Employee severance pay is defined as a “defined benefit plan”, in accordance with international accounting standards.

In accordance with the provisions of art. 2120 of the Italian Civil Code, employee severance pay would amount to EUR 71.7 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 Italian 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 liabilities during the year: severance pay

The table below provides the information required by paragraphs 140 and 141 of IAS 19.

Item/Amount	Present value of DBO	
	31 12 2023	31 12 2022
Opening balance	66,238	153,827
Current service cost	-	-
Interest income/expense	2,689	2,656
Remeasurement of net defined benefit liability (asset):	1,972	(12,385)
Actuarial gains (losses) arising from changes in demographic assumptions	(1)	14
Actuarial gains (losses) arising from experience adjustments	(273)	4,156
Actuarial gains (losses) arising from changes in financial assumptions	2,246	(16,555)
Payments from plan	(2,641)	(75,809)
Other changes	678	(2,052)
Closing balance	68,936	66,238

9.2.b Key actuarial assumptions used

Key actuarial assumptions/percentage	31 12 2023	31 12 2022
Discount rates	3.02%	3.61%
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 2023		31 12 2022	
	Change in DBO	Change (%) in DBO	Change in DBO	Change (%) in DBO
Discount rates				
Increase of 0.25%	(1,236)	-1.79%	(1,220)	-1.84%
Decrease of 0.25%	1,210	1.75%	1,223	1.85%



Section 10 – Provisions for risks and charges – Item 100

10.1 Provisions for risks and charges: breakdown

Item/Amount	Total 31 12 2023	Total 31 12 2022
1. Provisions for credit risk on commitments and financial guarantees issued	153,460	136,438
2. Provisions for other commitments and guarantee issued	-	3,551
3. Post employment benefits	3,381	23,516
4. Other provisions for risks and charges	808,446	1,282,924
4.1 legal disputes	463,656	866,782
4.2 personnel charges	66,027	53,238
4.3 other	278,762	362,904
Total	965,286	1,446,429

With reference to line 3. Company pension funds, the reduction in the provision is due to the performance in 2023 of the merger operation of defined benefit pension schemes in to the Section B of the Monte dei Paschi di Siena Pension Fund as part of the company pension reform process launched in 2019. For further details, please refer to section 10.5 Defined benefit company pension funds.

For further details of the sub-item 4 “Other provisions for risks and charges”, 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 2023			
	Provisions for other commitments and guarantee issued	Post employment benefits	Other Provisions for risks and charges	Total
A. Opening balance	3,550	23,516	1,282,924	1,309,990
B. Increases	-	3,147	237,894	241,041
B.1 Provision in the year	-	70	152,760	152,830
B.2 Changes due to the time value of money	-	-	31,581	31,581
B.3 Changes due to discount rate variation	-	-	2,497	2,497
B.4 Other increases	-	3,077	51,056	54,133
C. Decreases	3,550	23,282	712,372	739,204
C.1 Use during the year	-	470	93,375	93,845
C.2 Changes due to discount rate changes	-	593	4,375	4,968
C.3 Other decreases	3,550	22,219	614,622	640,391
D. Closing balance	-	3,381	808,446	811,827



10.2-bis Other provisions for risks and charges: annual changes

Item/Amount	Total 31 12 2023			
	Provisions for legal disputes	Provisions for personnel charges	Others Provisions	Total
A. Opening balance	866,782	53,238	362,904	1,282,924
B. Increases	135,409	29,390	73,094	237,894
B.1 Provision in the year	87,619	27,858	37,283	152,760
B.2 Changes due to the time value of money	26,790	1,373	3,419	31,582
B.3 Changes due to discount rate variation	2,434	20	43	2,497
B.4 Other increases	18,566	139	32,349	51,054
C. Decreases	538,535	16,601	157,236	712,372
C.1 Use during the year	34,352	11,474	47,548	93,374
C.2 Changes due to discount rate changes	3,652	142	582	4,376
C.3 Other decreases	500,531	4,985	109,106	614,622
D. Closing balance	463,656	66,027	278,762	808,446

Line B.4 “Other changes”, totalling EUR 51.0 mln, includes EUR 50.6 mln for the funds of the subsidiaries merged by incorporation.

Line C.3 “Other changes” in the columns “Provisions for legal and tax disputes” and “other provisions” includes reversals related to the significant improvement in the risk profile of judicial, civil and criminal proceedings, respectively, and out-of-court requests for financial information disclosed in the period 2008-2015, following favourable rulings in the last quarter of 2023.

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				
	Stage 1	Stage 2	Stage 3	Purchased or originated credit impaired	Total 31 12 2023
Commitments to disburse funds	8,772	3,462	-	-	12,234
Financial guarantees issued	7,711	12,759	113,350	7,406	141,226
Total 31 12 2023	16,483	16,221	113,350	7,406	153,460
Total 31 12 2022	12,756	13,975	102,054	7,653	136,438

10.4 Provisions on other commitments and guarantees given

As at 31 December 2023, the Bank does not have any provisions for these types of commitments and guarantees (EUR 3.6 mln as at 31 December 2022).



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 of the Bank and the Group companies, i.e. funds in which the obligation of future payment of retirement benefits is undertaken by the funds and indirectly by the Bank, which may be called upon to increase the value of the obligation in the event of inadequate capital assessed in accordance with actuarial criteria.

For each defined benefit plan the Bank relies on analyses carried out by an independent certified actuary.

In accounting for plans, the determination of the surplus or deficit is estimated through the use of the actuarial methodology of the “projected unit credit method”; therefore, the fair value of the plan assets, if any, was deducted from the current value of the obligation, as shown in the statement of financial position. For more information, see Part A of these Notes to the financial statements.

The valuations concerned the participating employees, whether retired or active (who form a closed group) at the date of valuation, and were carried out on the basis of these groups of employees as measured in December 2023.

In accordance with IAS 19, 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 markets.

Some of the main actuarial assumptions that were formulated and used as valuation bases are mentioned below:

- technical mortality basis: using death probability data as provided in ISTAT’s 2022 tables, broken down by gender and age, with mortality reduced by 30% for the funds and by 25% for the “Cassa di Previdenza Aziendale” [Pension Fund] for the staff of Monte dei Paschi di Siena based on longevity risk;
- economic-financial basis: using as annual relative interest rate the interpolated EUR Composite AA rate curve as at 31 December 2023.

For each defined benefit plan, the balance sheet equity resulting from valuations carried after reconciliation of actuarial assets and liabilities as at 31 December 2023 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 defined benefit funds, in which the Bank is co-obliged within the limits set out in the by-laws or in the regulations of each fund, are independent external funds.

In 2023, as part of the complete pension reform process launched in 2019, the Bank and former MPS Capital Services have carried out the merger of the defined benefit pension forms still present in section B of the Monte dei Paschi di Siena Pension Fund, without prejudice to the maintenance of the commitment for the future to cover any deficiencies in coverage necessary for the disbursement of social security benefits by the MPS Fund. The transaction, effective as of 1 January 2023, pursued the objectives of simplifying the governance of the funds, streamlining operational management, also in line with the directions of the Supervisory Authority, and reducing the actuarial risks to which the Bank is exposed. There were a total of nine pension funds involved in the transaction as a whole, of which:

- 6 internal funds, of which 4 unfunded (FORMER SERIT, FORMER BOB, FORMER COOPER, FORMER BPV) and 2 funded (FORMER BT and FORMER BNA);
- no. 1 unfunded internal fund of the former MPS Capital Services;
- 2 external funds, with legal personality (FORMER BAM and FORMER BAV).

In substance, the transaction involved:

- the transfer to the MPS Fund of monetary resources equal to the mathematical reserves of the funds at the effective date and the simultaneous release of the segregated assets in the financial statements for the funded funds;
- the simultaneous recognition to valuation reserves of surpluses, i.e. the excess of the assets of the funded funds over the mathematical reserves of which the legal basis was ascertained by seeking the opinion of a leading external consultant appointed by the Bank.



The valuation of the mathematical reserves for the purposes of the transaction was carried out with reference to the effective date by an external actuary on the basis of parameters updated to take into account the demographic evolution of the population of members, the updated mortality tables recently published by INPS and the evolution of discount and inflation rates. As a result of the transfer of funds, the Bank has recognised for accounting purposes the write-off of net liabilities for defined-benefit plans under item 100 - Provisions for Risks and Charges in the amount of EUR 19.6 mln and a positive impact on the shareholders' equity for approximately EUR 8 mln, gross of the relevant tax effects, under item 140 - Valuation Reserves. This operation does not change the Bank's pension obligations, which will therefore recognise as net liabilities when there is a capital deficit in the MPS Fund and similarly, recognises net assets when there is a surplus. All funds transferred were cancelled from the Register at the request of COVIP.

Monte dei Paschi di Siena Pension Fund

(Bank Register no. 1643)

The Fund has legal status and full independence in terms of capital and operation. 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 Fund and incurs all the related costs and expenses, including those for the functioning of the governing and control bodies.

The Fund, albeit in its subjective unitary nature, is divided into two separate Sections for accounting and equity purposes: Section A, defined contribution with individual capitalisation, which operates according to criteria of correspondence between accumulation and benefits; Section B, defined benefit or collective capitalisation, to which the assets pertaining to the former defined benefit funds are allocated.

In terms of guarantees given, in accordance with Article 42 of the By-laws, any shortfall in the cover capital of Section B that may emerge from the periodic audits will be settled by the Bank in relation to the joint guarantee towards members and third parties assumed by the Bank itself.

With regard to the Pension Fund of "MPS Capital Services Banca per le Imprese S.p.A", the guarantee given by the latter was acquired by the Bank as a result of the merger by incorporation of the subsidiary during the year.

The assets that make up the reference assets are managed in a separate section set up for this purpose.

The technical financial statements prepared according to IAS 19 by the appointed actuary shows the capital adequacy of Section B.

The following table summarises the populations (Retirees, Assets and Deferred), asset values (Asset Fair Values), Defined Benefit Obligations and related surplus as of 31 December 2023 of each of the former defined benefit funds merged into Section B of the Monte dei Paschi di Siena Pension Fund.



	Retired	Active	Deferred	Asset Fair Value (Eur/mln)	Defined Benefit Obligation (Eur/mln)	Surplus (Eur/mln)
Supplementary pension provision for staff in the former tax collection division of Banca Monte dei Paschi di Siena S.p.A. - (Register no. 9185)	271	0	0	14,06	11,97	2,09
Treatment of INPS (Italian state pension Institute) performance for former Banca Operaia di Bologna staff (Bank Register no.9142)	61	0	0	4,68	3,94	0,74
Pension provision for employees of former Banca di Credito Popolare e Cooperativo di Reggio Emilia (Bank Register no.9178)	7	0	0	0,49	0,42	0,07
Pension provision for employees of former Banca Popolare Veneta (Bank Register no. 9066).	9	0	0	0,17	0,14	0,03
Pension fund for MPS Capital Services Banca per le Imprese S.p.A. (Register no.9134)	30	0	0	2,88	2,00	0,88
Pension provision for employees of former Banca Nazionale Agricoltura (Bank Register no. 9047)	173	0	3	6,51	6,40	0,11
Complementary pension provision for employees of former Banca Toscana (Bank Register no. 9110))	651	3	0	61,55	51,36	10,19
Pension Fund for personnel of former Banca Agricola Mantovana S.p.A. (Bank Register no. 1341)	25	0	1	0,58	0,52	0,06
Pension Fund for personnel of former Banca Antonveneta S.p.a. (Register no. 1033)	24	0	0	1,23	1,17	0,06

Cassa di Previdenza Aziendale for Monte dei Paschi di Siena employees

(Bank Register no. 1127)

The Fund has legal status and full independence in terms of capital and operation. It is reserved to employees and retirees of the Bank hired up to 31 December 1990 who, following the agreement of 30 June 1989, opted to remain in the specific supplementary 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 Italian Law no. 218/90 and referred to in the agreement of 24 June 1991.

The supplementary benefits, which are determined by subtracting the benefits paid out by INPS from the annual amount of the supplementary benefits, are made up of two components. The first component increases the benefits to be paid by the Cassa up to 70% of the fixed items of the salary of an employee of the same level, and the second component increases the supplementary benefits by a further 9%.

The assets that comprise the reference capital consist primarily of investments in securities, managed almost entirely under a financial management agreement, and properties.

The beneficiary population is composed of 2,168 retirees, 97 active employees and 19 employees on deferred retirement.

The technical report prepared in accordance with IAS 19 criteria by the designated actuary shows the capital adequacy of the Supplementary Section which, against an asset fair value of EUR 245.99 mln, takes into consideration a defined benefit obligation (DBO) as at 31 December 2023 of EUR 57.41 mln.

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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 2023 shows the capital adequacy of the plan, with a DBO (Defined Benefit Obligation) of EUR 43.71 mln against an asset fair value of EUR 34.92 mln.

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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 supplementary benefits associated with the former Credito Lombardo S.p.A. Considering the contractual nature of the obligation, the economic costs are incurred directly by the Bank. The currently limited population eligible for benefits includes a total of 76 immediate pensions, of which 47 direct and 29 indirect. The actuarial calculations show a DBO (Defined Benefit Obligation) of EUR 1.49 mln at the valuation date of 31 December 2023.

Finally, there is one position referring to a former General Manager of the Bank 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 Bank'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.



10.5.2 Changes in net defined liability (asset) and reimbursement rights during the financial 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 2023			
	A (-)	B (+)	C (+)	D=A+B+C
	Plan assets	Present value of DBO	Effect of asset ceiling	Net defined benefit liability (asset)
Opening balance	(82,482)	91,538	14,366	23,422
Current service cost	X	-	X	-
Interest income/expense	-	70	-	70
Remeasurement of net defined benefit liability (asset):	-	22	-	22
Return on plan assets excluding interest	-	X	X	-
Actuarial gains (losses) arising from changes in demographic assumptions	X	(81)	X	(81)
Actuarial gains (losses) arising from experience adjustments	X	183	X	183
Actuarial gains (losses) arising from changes in financial assumptions	X	(80)	X	(80)
Changes in effect of limiting net defined benefit asset to asset ceiling	X	X	-	-
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	-	(470)	X	(470)
Effect of business combinations and disposals	-	-	-	-
Effect of any plan curtailments	-	-	X	-
Effect of any plan settlements	-	-	X	-
Other changes	82,482	(87,779)	(14,366)	(19,663)
Closing balance	-	3,381	-	3,381

The line “Other changes” included EUR 82.5 mln related to funded planes and EUR 87.8 mln in column Present value of DBO” related to internal funded and unfunded fund that have been transferred to Section B to section B

The line “Closing balances” show the value of net liability for defined benefits attributable to the former Credito Lombardo S.p.A. and the former Provveditore, excluded from the aforementioned transaction.



Item/Amount	31 12 2022			
	A (-)	B (+)	C (+)	D=A+B+C
	Plan assets	Present value of DBO	Effect of asset ceiling	Net defined benefit liability (asset)
Opening balance	(91,064)	104,176	13,587	26,699
Current service cost	X	4	X	4
Interest income/expense	(305)	335	46	76
Remeasurement of net defined benefit liability (asset):	1,596	(3,229)	733	(900)
Return on plan assets excluding interest	1,596	X	X	1,596
Actuarial gains (losses) arising from changes in demographic assumptions	X	3,557	X	3,557
Actuarial gains (losses) arising from experience adjustments	X	10,602	X	10,602
Actuarial gains (losses) arising from changes in financial assumptions	X	(17,388)	X	(17,388)
Changes in effect of limiting net defined benefit asset to asset ceiling	X	X	733	733
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	7,291	(9,748)	X	(2,457)
Effect of business combinations and disposals	-	-	-	-
Effect of any plan curtailments	-	-	X	-
Effect of any plan settlements	-	-	X	-
Other changes	-	-	-	-
Closing balance	(82,482)	91,538	14,366	23,422



10.5.2b Changes in net defined liability (asset) and reimbursement rights during the financial year: external Funds

Item/Amount	31 12 2023			
	A (-)	B (+)	C (+)	D=A+B+C
	Plan assets	Present value of DBO	Effect of asset ceiling	Net defined benefit liability (asset)
Opening balance	(303,433)	109,964	193,562	93
Current service cost	X	-	X	-
Interest income/expense	(16,503)	8,194	8,309	-
Remeasurement of net defined benefit liability (asset):	21,577	(22,928)	(7,240)	(8,591)
Return on plan assets excluding interest	21,577	X	X	21,577
Actuarial gains (losses) arising from changes in demographic assumptions	X	(9,881)	X	(9,881)
Actuarial gains (losses) arising from experience adjustments	X	(12,535)	X	(12,535)
Actuarial gains (losses) arising from changes in financial assumptions	X	(512)	X	(512)
Change in effect of limiting net defined benefit asset to asset ceiling	X	X	(7,240)	(7,240)
Past service cost and gains (losses) arising from settlements	X	-	X	-
Changes in foreign exchange rates	(866)	709	157	-
Contributions to plan:	(97,657)	-	-	(97,657)
by employer	(97,657)	-	X	(97,657)
by employee	-	-	X	-
Payments from plan	16,505	(16,505)	X	-
Effect of business combinations and disposals	-	3,077	-	3,077
Effect of any plan curtailments	-	-	X	-
Effect of any plan settlements	-	-	X	-
Other changes	509	87,778	14,791	103,078
Closing balance	(379,868)	170,289	209,579	-

The merger of no. 6 internal funded and unfunded funds to section B of the MPS Pension Fund resulted in:

- The transfer of monetary resources of about EUR 94 mln represented in the column “Plan Assets” line “Contributions paid by employer”;
- The increase in the defined benefit liability of about EUR 87.8 mln represented in the column “Present value of DBO” in the line “Other changes”;
- A net positive impact on valuation reserves of about EUR 8 mln shown in the column “Liability/Net defined benefit asset” in the line “Revaluation of liability/net defined benefit asset”.



Item/Amount	31 12 2022			
	A (-)	B (+)	C (+)	D=A+B+C
	Plan assets	Present value of DBO	Effect of asset ceiling	Net defined benefit liability (asset)
Opening balance	(369,116)	143,036	226,173	93
Current service cost	X	-	X	-
Interest income/expense	(3,246)	1,603	1,643	-
Remeasurement of net defined benefit liability (asset):	59,949	(24,907)	(35,042)	-
Return on plan assets excluding interest	59,949	X	X	59,949
Actuarial gains (losses) arising from changes in demographic assumptions	X	836	X	836
Actuarial gains (losses) arising from experience adjustments	X	14,257	X	14,257
Actuarial gains (losses) arising from changes in financial assumptions	X	(40,000)	X	(40,000)
Change in effect of limiting net defined benefit asset to asset ceiling	X	X	(35,042)	(35,042)
Past service cost and gains (losses) arising from settlements	X	-	X	-
Changes in foreign exchange rates	3,711	(2,883)	(828)	-
Contributions to plan:	(2,255)	-	-	(2,255)
by employer	(2,255)	-	X	(2,255)
by employee	-	-	X	-
Payments from plan	6,885	(6,885)	X	-
Effect of business combinations and disposals	-	-	-	-
Effect of any plan curtailments	-	-	X	-
Effect of any plan settlements	-	-	X	-
Other changes	639	-	1,617	2,255
Closing balance	(303,433)	109,964	193,562	93



10.5.2c Changes in net defined liability (asset) and reimbursement rights during the year – Total

Item/Amount	31 12 2023			
	A (-)	B (+)	C (+)	D=A+B+C
	Plan assets	Present value of DBO	Effect of asset ceiling	Net defined benefit liability (asset)
Internal funds	-	3,381	-	3,381
External funds	(379,868)	170,289	209,579	-
Total defined benefit funds	(379,868)	173,670	209,579	3,381

Item/Amount	31 12 2022			
	A (-)	B (+)	C (+)	D=A+B+C
	Plan assets	Present value of DBO	Effect of asset ceiling	Net defined benefit liability (asset)
Internal funds	(82,482)	91,538	14,366	23,422
External funds	(303,433)	109,964	193,562	93
Total defined benefit funds	(385,915)	201,502	207,928	23,516

10.5.3 Information on the fair value of plan assets

Item	31 12 2023			
	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	-	-	110,623	-
of which: used by the Bank	-	-	-	-
Equity instruments	-	-	32,325	-
of which: used by the Bank	-	-	-	-
Debt instruments	-	-	150,659	-
of which: used by the Bank	-	-	-	-
Real estate	-	-	-	41,454
of which: used by the Bank	-	-	-	-
Derivatives	-	-	-	-
UCITS	-	-	44,807	-
Asset-backed securities	-	-	-	-
Structured debt	-	-	-	-
Total	-	-	338,414	41,454
<i>of which: own instruments/ assets used by the Bank</i>	-	-	-	-

The table shows, for funded defined benefit plans, the total amount of plan assets. In particular, the assets refer to the following funds:

- 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;
- Monte dei Paschi di Siena Pension Fund.

All funds are in excess of existing obligations at the end of the financial year.



Item	31 12 2022			
	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	82,482	-	52,710	-
of which: used by the Bank	82,482	-	2,128	-
Equity instruments	-	-	30,267	-
of which: used by the Bank	-	-	-	-
Debt instruments	-	-	136,076	-
of which: used by the Bank	-	-	-	-
Real estate	-	-	-	46,294
of which: used by the Bank	-	-	-	-
Derivatives	-	-	-	-
UCITS	-	-	38,085	-
Asset-backed securities	-	-	-	-
Structured debt	-	-	-	-
Total	82,482	-	257,138	46,294
<i>of which: own instruments/assets used by the Bank</i>	<i>82,482</i>	<i>-</i>	<i>2,128</i>	<i>-</i>

10.5.4 Key actuarial assumptions used

Key actuarial assumptions/percentages	31 12 2023		31 12 2022	
	Defined benefit funds		Defined benefit funds	
	Internal pension plans	External pension plans	Internal pension plans	External pension plans
Discount rates	3.52%	3.32%	3.55%	4.06%
Expected rates of salary increases	1.00%	1.76%	2.04%	2.38%

A discount rate of 3.52% was used for internal plans and of 3.32% for external ones (3.02% for the 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 2023, 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 to the exhaustion of the population considered.



10.5.5 Information on amount, timing and uncertainty of cash flows

31 12 2023

Actuarial assumption	Change in DBO	Change (%) in DBO
Discount rate		
Increase of 0.25%	(370)	-0.21%
Decrease of 0.25%	490	0.28%
Expected rates of salary increases		
Increase of 0.25%	668	0.38%
Decrease of 0.25%	(1,110)	-0.64%

31 12 2022

Actuarial assumption	Change in DBO	Change (%) in DBO
Discount rate		
Increase of 0.25%	(4,557)	-2.23%
Decrease of 0.25%	4,005	1.96%
Expected rates of salary increases		
Increase of 0.25%	3,158	1.63%
Decrease of 0.25%	(3,709)	-1.91%

With respect to pay increases, it is not possible to conduct any sensitivity analysis given the static nature of the benefits linked to the choice of participants to stay in the fund.

10.5.6 Plans covering multiple employers

The table in this section was not completed since there are no plans covering multiple employers to report for either the current or previous year.

10.5.7 Defined benefit plans sharing risks among entities under common control

The table in this section was not completed since there are no defined benefit plans sharing risks among entities under common control to report for either the current or previous year.



10.6 Provisions for risks and charges: other provisions

Items/Amounts	Total 31 12 2023	Total 31 12 2022
2.1 Legal and tax disputes	463,656	866,782
- Revocatory	17,044	14,483
- Other legal disputes	429,306	841,727
- Tax disputes	17,306	10,572
2.2 Personnel charges	66,027	53,238
- Job disputes	39,504	49,375
- Leaving incentives	406	1,633
- Other	26,117	2,230
2.3 Other	278,763	362,904
- Risks related to the sale of business units	5,878	14,295
- Charges due to corporate restructuring	1,440	97
- Payments to financial advisors	2,541	-
- Compensations due to credit sale operations	132,520	119,551
- Charges for embezzlement	1,887	1,329
- Claims and Court agreements	13,795	11,780
- Compensation initiative connected to the offers of diamonds	2,156	4,402
- Claw back clause (IFRS 15)	16,692	23,340
- Customer reimbursement	5,617	15,701
- Estimated legal fees for legal assistance services	32,320	34,665
- Other	63,917	137,744
Total	808,446	1,282,924

The reductions in provisions reported in lines 2.1 “Legal and tax disputes-Other legal disputes” and 2.3 “Other-Other” refer mainly to the significant improvement in the risk profile of judicial, civil and criminal proceedings, and out-of-court claims, respectively relating to financial information disseminated in the period 2008-2015, following the favourable rulings issued in the last quarter of 2023.

The amount of EUR 132.5 mln recognised in the line “Indemnities related to loan assignment transactions” represents the provision allocated to cover the risks associated with contractual guarantees issued as part of de-risking transactions of non-performing loans, the increase compared to the year 2022 is mainly related to the acquisition of the balances of the merged companies.

The amount of EUR 26.1 mln recorded in the line “Personnel charge-Other” includes the allocation for personnel incentive system.

10.7 Contingent liabilities

Typology	31 12 2023	31 12 2022
Legal and tax disputes	1,893,799	1,741,286
Revocatory	5,397	6,417
Other legal disputes	1,863,928	1,706,776
Tax disputes	24,475	28,093
Personnel charges	16,140	15,297
Job disputes	16,140	15,297
Others	249,513	877,167
Total	2,159,452	2,633,750

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 “probable” 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 relief sought, 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 financial year or for the previous financial year.

Section 12 - Company equity – Items 110, 130, 140, 150, 160, 170, 180

12.1 “Share capital” and “Treasury shares”: breakdown

12.1.a “Share capital” breakdown

Items/Amounts	(in units of Eur)			
	31 12 2023		31 12 2022	
	Implied par value share (a)	Par value of fully paid shares	Par value per share	Par value of fully paid shares
Ordinary shares	5.92	7,453,450,788	5.92	7,453,450,788
Total		7,453,450,788		7,453,450,788

On 6 June 2011 the Bank’s Extraordinary Shareholders’ Meeting resolved that indication of the nominal value of the classes of shares be eliminated; accordingly, as at 31 December 2011, the so-called “Implied nominal 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 7,453,450,788, represented by 1,259,689,706 ordinary shares without a nominal value, all outstanding.

12.1.b “Treasury shares”: breakdown

As at 31 December 2023, as in the financial year used for comparison, the Bank held no treasury shares.

**12.2 Share capital - Number of shares: annual changes**

Item/Type	31 12 2023	31 12 2022
	Ordinary	Ordinary
A. Shares outstanding as at the beginning of the year	1,259,689,706	1,002,405,887
- fully paid	1,259,689,706	1,002,405,887
- not fully paid	-	-
A.1 Treasury shares (-)	-	-
A.2 Shares outstanding: opening balance	1,259,689,706	1,002,405,887
B. Increases	-	1,249,665,648
B.1 New issuances	-	1,249,665,648
- Against payment:	-	1,249,665,648
- Business combinations	-	-
- Bond converted	-	-
- warrants exercised	-	-
- other	-	1,249,665,648
- without payment:	-	-
- to employees	-	-
- to directors	-	-
- other	-	-
B.2 Sale of treasury shares	-	-
B.3 Other increases	-	-
C. Decreases	-	992,381,829
C.1 Cancellation	-	87
C.2 Purchase of treasury shares	-	-
C.3 Business transferred	-	-
C.4 Other decreases	-	992,381,742
D. Shares outstanding: closing balance	1,259,689,706	1,259,689,706
D.1 Treasury shares (+)	-	-
D.2 Shares outstanding as at the end of the year	1,259,689,706	1,259,689,706
- fully paid	1,259,689,706	1,259,689,706
- not fully paid	-	-

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 2023, as in the financial year used for comparison, the Bank held no equity instruments.

12.4 Retained earnings: other information**12.4.a Item “Reserves” - breakdown**

Please refer to “Part F - Information on shareholders’ equity” in these Notes to the Financial Statements

		Note	31 12 2023	Under tax suspension	Available for use	Amounts used in the last 5 years to cover losses
110 Valuation reserves	Equity instruments measured at fair value through other comprehensive income		(16,521)			
	Financial assets (other than equity instruments) measured at fair value through other comprehensive income		(60,145)			
	Cash flow Hedges	(1)	17,794			
	Exchange differences	(1)	2,984			
	Actuarial gains (losses) on defined benefit plans		(47,168)			
	Valuation reserve of own credit risk	(1)	114,756			
	Valuation reserve on tangible assets	(1)	8,369			
	Valuation reserves		20,069			
130 Equity Instruments	Equity instruments					
	- Merger surplus		553,972		ABC	130,573
	- Merfer deficits		(52,761)			
140 Reserves	- Adjustment AMCO spin-off reserve					196,187
	- Reserve of retaining earning as at 30 June 2022					96,965
	- Profit (loss) carried forward		(232,747)			
	-Costs incurred for the capital increase and other reserves		(121,852)			
	Reserve		146,612			
150 Share premium reserve	Share premium reserve		-	-		
160. Share capital	Share capital		7,453,451			4,240,893
170. Treasury shares	Treasury shares					
180. Profit (Loss) for the year	Profit (Loss) for the year		2,021,525			-
Total shareholders' equity			9,641,658			4,664,618

A) For capital increase
B) To cover losses
C) For distribution to shareholders

1) The reserve is unavailable pursuant to art. 6 of Italian Legislative Decree no. 38/2005;



12.4.c Proposal to cover losses under art. 2427, par. 22-septies of the Italian Civil Code

Dear Shareholders:

You have been called to the Ordinary Shareholders' Meeting to resolve upon the following topic put on the agenda under point 1):

1.1) approval of 2023 Parent' Company's financial statements;

Pursuant to article 2364 of the Italian Civil Code and in articles 13 and 30 of the By-laws of Banca Monte dei Paschi di Siena S.p.A. (the “**Bank**” or the “**Parent Company**”), the Shareholders' Meeting is called to approve the Bank's financial statements for the year ended on 31 December 2023, which show a EUR 2,021,525,016.72. net profit for the year.

Moreover, the Shareholders' Meeting is presented with the consolidated financial statements of Monte dei Paschi di Siena Group as at 31 December 2023, which closed with a net profit of EUR 2,051,625,559, of which EUR 2,051,781,237 pertaining to the Parent Company.

It should also be noted that article 26 of Decree Law no. 104 of 10 August 2023 (converted with amendments by Law no. 136 of 9 October 2023) has introduced an extraordinary tax for banks, calculated by applying a rate of 40% on the amount of the interest margin for the financial year 2023 that exceeds the interest margin for the financial year 2021 by at least 10%; the amount of this tax may not exceed a proportion equal to 0.26% of risk-weighted assets as at 31 December 2022. Furthermore, the law provide that, instead of paying the tax, banks may, upon approval of the 2023 financial statements, allocate an amount not less than 2.5 times the tax due to a non-distributable reserve established for this purpose. This reserve qualifies as a suspended tax reserve since, if used in the future for the distribution of profits, the Bank will be required to pay the extraordinary tax, increased, as from the payment deadline established in paragraph 4 of Decree Law no. 104 of 10 August 2023, by an amount equal, in annual terms, to European Central Bank's depositary rate.

For the Bank, the tax due is equal to approximately EUR 123,552,481.63 which, if not paid, results in the creation of a non-distributable reserve of no less than EUR 308,881,204.08. The Board of Directors, in order to strengthen the Bank's capital position, resolved to propose to the Shareholders' Meeting to allocate a portion of the net profit for 2023 financial year to the creation of the non-distributable reserve pursuant to art. 26, paragraph 5-bis of Decree Law no. 104 of 10 August 2023. It follows from this proposal, Bank's net profit and net equity are not affected by this tax.

1.2) profit allocation and dividend distribution to Shareholders.

As anticipated on 7 February 2024, the Bank's Board of Directors informed the market about the return to dividend. On 29 February 2024, the Board of Directors resolved to propose to the Shareholders' Meeting the payment of a dividend under the terms and conditions outlined below.

Referring to this proposal to distribute profits to Shareholders, it should be noted that the European Central Bank, in December 2022, considering the successful completion of the capital increase carried out by the Bank during 2022, removed the prohibition on the distribution of dividends, replacing it with the obligation for the Bank to obtain prior authorisation from the Supervisory Authority⁸⁴. Therefore, this proposal remains subject to the European Central Bank's authorisation, to which a specific application has been submitted. The Shareholders, and the market in general, will be promptly informed, through a specific press release, of the completion of the authorisation process by the Supervisory Authority.

It is therefore proposed that the Shareholders' Meeting resolve on the distribution of the net profit for the year 2023, according to the allocation showed below, in compliance with the laws and regulations in force.

In this regard, please note that:

- art. 2430 of the Italian Civil Code states that an amount corresponding to at least the twentieth part of the annual net profits must be deducted from them to constitute the legal reserve, until the latter has reached one-fifth of the share capital;
- art. 31 of the Bank's By-laws states that: “*the net profits resulting from the financial statements are assigned as follows:*
 - a) 10% to the legal reserve, until this reaches the amount of 1/5 of the share capital;

⁸⁴ See BMS press release of 27 December 2022 <https://www.gruppompis.it/media-e-news/comunicati/cs-27-12-22.html>



b) to the creation and growth of a statutory reserve for no less than 15% and at least 25% once the legal reserve has reached the amount of 1/5 of the share capital.

The residual net profits are available to the Shareholders' Meeting for distribution to Shareholders and/or for the creation and growth of other reserves".

- art. 6 of Legislative Decree no. 38/2005 states that profits for the year may not be distributed to the extent of the capital gains that are recognised in the income statement, net of the relevant tax burden and other than those relating to financial trading instruments if they result from the financial statement and to foreign exchange and hedging transactions, resulting from the application of the fair value or equity method (paragraph 1, letter a) and that the profits corresponding to such capital gains are recognised in a unavailable reserve (paragraph 2).

Accordingly, it is proposed to allocate the net profit for the year 2023 as follows:

- (i) to legal reserve of an amount equal to 10% of the accrued profit corresponding to EUR 202,152,501.67 pursuant to art. 31 of the By-laws;
- (ii) to statutory reserve for an amount equal to 15% of the accrued profit corresponding to EUR 303,228,752.51, pursuant to art. 31 of the By-laws;
- (iii) to unavailable reserve for an amount equal to EUE 52,696,808.33, pursuant to art. 6 of Legislative Decree no. 38/2005;
- (iv) to non-distributable reserve for an amount of EUR 308,881,204.08, pursuant to art. 26 paragraph 5-*bis* of Decree Law no. 104 of 10 August 2023, converted with amendments by Law no. 136 of 9 October 2023;
- (v) to cover net previous losses for an amount of EUR 354,598,588.77; these net losses are the result of the loss carried forward for EUR 232,747,069.96, following the resolution of the Shareholders' Meeting of 20 April 2023, and the net costs of EUR 121,851,518.81 charged directly to shareholders' equity in application of the international accounting standards IAS/IFRS;
- (vi) to Shareholders, with distribution of a unit dividend of EUR 0.25 for each outstanding share entitled to the payment of dividends, for a maximum total amount of EUR 314,922,426.50;
- (vii) to extraordinary reserve for the remaining profit of EUR 485,044,734.86.

If this proposal is approved by the Shareholders' Meeting, the consolidated capital requirements would show a Common Equity Tier 1 Ratio of 18.1% and a Total Capital Ratio of 21.6%, both amply meeting the requirements of the competent Authorities. These ratios are also well above the thresholds imposed in Commitment no. 2 (Dividend ban) pursuant to the European Commission's Decision of 2 August 2022 concerning "*State Aid S.A. 10345 (2022/N) - Italy; Banca Monte dei Paschi di Siena-Second Amendment to the list of Commitments related to aid granted to Banca Monte dei Paschi di Siena in 2017*".

Pursuant to the laws and regulations in force, it is proposed that the distribution of the dividend takes place with the following methods and timing:

- ✓ ex-dividend date: 20 May 2024;
- ✓ payment date: 22 May 2024.

Pursuant to art. 83-*terdecies* of Legislative Decree no. 58/1998, as subsequently amended ("**Consolidated Financial Act**" or "**TUF**"), those who are shareholders on the basis of the accounting records as at the end of the accounting day of 21 May 2024 (record date) will be entitled to receive the dividend.

If this proposal is approved, the net equity of Banca Monte dei Paschi di Siena S.p.A. will be as shown in the table below:



(EUR/million)			
	Financial statement 2023	Changes	Pro-forma Net equity in the 2023 Financial Statement after Shareholders' Meeting resolutions and dividend payment
Capital	7,453	-	7,453
Reserves	147	1,707	1,854
Valuation Reserves	20	-	20
Profit (Loss) for the year	2,022	(2,022)	-
Total	9,642	(315)	9,327

Siena, 29 February 2024

the Board of Directors



Other information

1 Commitments and financial guarantees given (other than those measured at fair value)

Nominal Amount	31 12 2023					Total
	Stage 1	Stage 2	Stage 3	Purchased or originated credit impaired financial assets	Total	31 12 2022
Commitments to disburse funds	33,502,802	821,257	379,072	29	34,703,160	24,571,100
a) Central banks	-	-	-	-	-	-
b) Public entities	524,863	-	16	-	524,879	615,726
c) Banks	1,538,228	-	-	-	1,538,228	1,750,291
d) Other financial companies	9,448,408	948	538	-	9,449,894	903,553
e) Non-financial companies	20,248,700	686,615	367,025	29	21,302,369	19,121,363
f) Families	1,742,603	133,694	11,493	-	1,887,790	2,180,167
Financial guarantees given to	4,253,310	451,840	177,644	8,696	4,891,490	5,191,612
a) Banks	60	-	-	-	60	60
b) Public entities	40,865	2,514	-	-	43,379	47,946
c) Banks	479,590	-	-	-	479,590	831,958
d) Other financial companies	95,848	5,033	891	-	101,772	156,848
e) Non-financial companies	3,558,143	437,744	174,510	8,696	4,179,093	4,077,043
f) Families	78,804	6,549	2,243	-	87,596	77,757
Total	37,756,112	1,273,097	556,716	8,725	39,594,650	29,762,712

2 Other commitments and guarantees given

	Nominal value	
	31 12 2023	31 12 2022
Other guarantees given to	12,911	19,542
<i>of which: non-performing exposures</i>	-	-
a) Central Banks	-	-
b) Public entities	-	-
c) Banks	6,778	11,700
d) Other financial companies	6,133	7,842
e) Non-financial companies	-	-
f) Families	-	-
Other commitments	-	386,904
<i>of which: non-performing exposures</i>	-	-
a) Central Banks	-	-
b) Public entities	-	-
c) Banks	-	-
d) Other financial companies	-	-
e) Non-financial companies	-	386,904
f) Families	-	-
Total	12,911	406,446

The table shows, at the line “Other guarantees given”, the maximum risk resulting from the failure to comply with the representations and warranties issued by the Group in the context of the transactions for de-risking of non-performing loans and not yet matured at this reporting date.



The amount indicated in line “Other commitments” as at 31 December 2022, equal to EUR 386.9 mln, represented the commitments to disburse new loans as part of a synthetic securitisation transaction, which ended in December 2023.

3 Assets pledged as collateral for liabilities and commitments

Portfolios	31 12 2023	31 12 2022
1. Financial assets measured at fair value through profit or loss	1,924,188	12,566
2. Financial assets measured at fair value through other comprehensive income	1,169,062	941,265
3. Financial assets measured at amortised cost	37,065,289	34,604,563
4. Property, plant and equipments	-	-
<i>of which: inventories of tangible assets</i>	-	-

The table summarises the assets pledged by the Bank as collateral for its liabilities, mainly represented by repurchase agreements. The amount in line “3. Financial assets measured at amortised cost” includes approx. EUR 20.2 bn related to mortgage loans transferred to the vehicles MPS Covered Bond S.r.l. and MPS Covered Bond 2 S.r.l. under the two programs for the issue of covered bonds and approximately EUR 11.6 bn relative to mortgage loans granted with guarantee at the Eurosystem (ABACO).

4 Asset management and trading on behalf of third parties

	Amount 31 12 2023
1. Trading of financial instruments on behalf of third parties	
a) Purchases	2,298,688
1. Settled	2,298,688
2. Unsettled	-
b) Sales	1,099,952
1. Settled	1,099,952
2. Unsettled	-
2. Asset management accounts	
a) individual	4,679,877
b) collective	-
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)	53,814,636
1. Securities issued by companies included in consolidation	50,971
2. Other securities	53,763,665
c) third party securities deposited with third parties	40,858,990
d) own securities deposited with third parties	25,379,282
4. Other transactions	22,742,609



5 Financial assets subject to offsetting, enforceable offsetting framework 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 2023	Net amount 31 12 2022
				Financial instruments (d)	Deposits of cash collateral received (e)		
1. Derivatives	9,881,184	7,165,734	2,715,450	541,623	697,332	1,476,495	1,179,846
2. Repurchase agreements	7,260,573	-	7,260,573	7,202,061	-	58,512	5,784
3. Securities lending	-	-	-	-	-	-	-
4. Other	-	-	-	-	-	-	-
Total as at 31 12 2023	17,141,757	7,165,734	9,976,023	7,743,684	697,332	1,535,007	X
Total as at 31 12 2022	7,026,166	517,297	6,508,869	5,246,502	76,737	X	1,185,630

6 Financial liabilities subject to offsetting, enforceable framework offsetting agreements 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 2023	Net amount 31 12 2022
				Financial instruments (d)	Deposits of cash collateral received (e)		
1. Derivatives	8,380,505	7,165,734	1,214,771	544,834	423,578	246,359	64,162
2. Repurchase agreements	6,703,319	-	6,703,319	6,656,847	-	46,472	119,076
3. Securities lending	-	-	-	-	-	-	-
4. Other	-	-	-	-	-	-	-
Total as at 31 12 2023	15,083,824	7,165,734	7,918,090	7,201,681	423,578	292,831	X
Total as at 31 12 2022	1,652,083	517,297	1,134,786	639,345	312,203	X	183,238

IFRS 7 requires disclosure of information for all financial instruments that:

- were offset in the balance sheet pursuant to IAS 32;
- could potentially be offset, given certain conditions, but presented in the balance sheet as open balances as they are governed by “framework offsetting agreements or similar agreements” which do not meet the criteria established in IAS 32 for offsetting.

The amount offset in the financial statement refers to trading in OTC derivatives through central counterparties.

For the purposes of reconciliation of the amounts shown in the column (c) “net amount of financial assets/liabilities recognised in the balance sheet” with the opening balances shown in “Part B – Information on the balance sheet”, it should be noted that:

- the amount related to both trading and hedging derivative financial instruments, aided by netting agreements or similar, is represented in asset items 20 a) “Financial assets held for trading” and 50 “Hedging derivatives” and in liability items 20 “Financial liabilities held for trading” and 40 “Hedging derivatives”;
- the amount related to repurchase agreements subject to netting agreements or similar is shown in line “Repurchase agreements/Reverse repurchase agreements” in the tables containing a breakdown of asset item 40 “Financial assets measured at amortised cost” and liability item 10 “Financial liabilities measured at amortised cost”.

It should also be noted that:

- with regard to securities lending transactions, in these tables transactions involving the payment of cash collateral fully owned by the lender are included in the item “Repurchase agreements”;
- the repurchase agreements are recognised in the tables at amortised cost, while the financial collateral and derivative transactions are reported at their fair value.



7 Securities lending transactions

The Bank, as borrower, has not carried out securities lending transactions guaranteed by other securities or securities lending transactions with customers.

8 Information on joint control activities

At the reporting date, as in the previous financial year, there were no jointly controlled arrangements qualifying as “joint operations” within the meaning of IFRS 11, according to which the parties with joint control have rights to the assets and obligations to the liabilities of the arrangement.



Part C – Information on the Income Statement

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Section 1 - Interest income/expense - Items 10 and 20

1.1 Interest income and similar revenues: breakdown

Item/Type	Debt securities	Loans	Other transactions	Total 31 12 2023	Total 31 12 2022
1. Financial asset measured at fair value through profit and loss	50,337	3,905	-	54,242	9,616
1.1 Financial asset held for trading	42,487	28	-	42,515	-
1.2 Financial assets designated at fair value	-	-	-	-	-
1.3 Financial assets mandatorily measured at fair value	7,850	3,877	-	11,727	9,616
2. Financial asset measured at fair value through other comprehensive income	45,856	-	X	45,856	39,942
3. Financial assets measured at amortised cost	244,164	3,326,795	X	3,570,959	1,679,590
3.1. Loans to banks	26,749	96,430	X	123,179	161,426
3.2 Loans to customers	217,415	3,230,365	X	3,447,780	1,518,164
4. Hedging derivatives	X	X	106,100	106,100	(54,203)
5. Other assets	X	X	530,503	530,503	114,750
6. Financial liabilities	X	X	X	604	134,048
Total	340,357	3,330,700	636,603	4,308,264	1,923,743
<i>of which interest income on credit impaired assets</i>	-	82,617	-	82,617	45,347
<i>of which interest income on financial leasing</i>	-	199,744	-	199,744	-

Line 4 “Hedging derivatives”, in the “Other transactions” column, includes the spread related to hedging derivatives rectifying the interest income recognised on the hedged financial instruments under assets. The reversal from the comparative period is due to the rise in interest rates during 2023, which resulted in positive differentials on derivatives - interest rate swaps (IRS) and interest rate options - which the Bank uses mainly to hedge the interest rate risk on fixed rate commercial assets.

Line 5 “Other assets”, column “Other transactions”, shows interest accrued on demand deposits and current accounts with central banks classified under “Cash and cash equivalents”, for EUR 437.1 mln (EUR 81.4 mln as at 31 December 2022), the significant increase compared to last year is due to the monetary policy decisions of the Governing Council of the ECB which, during 2023, raised the deposit rate at various times. The same item also includes accrued interest income on tax credits in the amount of EUR 56.2 mln (EUR 20.9 mln as at 31 December 2022).

The decrease reported in line 6 “Financial liabilities” is mainly attributable to the combined effect of: (i) an increase in interest rates and (ii) the discontinuation of the advantageous remuneration mechanisms previously applied to the TLTRO III auctions, which had resulted in interest accrued on these transactions of EUR 130.5 mln as at 31 December 2022. For the accounting treatment relating to the recognition of interest for the period, reference is made to what is illustrated in the paragraph “Other relevant accounting treatments” contained in Part A of these Notes to the financial statements.

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 financial year for positions that are classified as “non-performing” as at the reporting date totalled EUR 82.6 mln (EUR 45.3 mln as at 31 December 2022).

Interest on arrears is posted to net interest income only for the portion actually collected.

For a trend analysis of the concerned items, reference should be made to the Consolidated 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 2023 amounted to EUR 42.7 mln as compared to EUR 19.7 mln in 2022.

1.3 Interest expense and similar charges: breakdown

	Deposits	Securities	Other transactions	Total 31 12 2023	Total 31 12 2022
1. Financial liabilities measured at amortised cost	(1,617,519)	(382,415)	-	(1,999,934)	(549,169)
1.1 Due to Central banks	(540,576)	X	X	(540,576)	(13)
1.2 Due to banks	(212,461)	X	X	(212,461)	(114,700)
1.3 Due to customers	(864,482)	X	X	(864,482)	(125,302)
1.4 Debt securities issued	X	(382,415)	X	(382,415)	(309,154)
2. Financial liabilities held for trading	-	-	(2,144)	(2,144)	(873)
3. Financial liabilities designated at fair value	-	(4,507)	-	(4,507)	(5,375)
4. Other liabilities	X	X	(138)	(138)	-
5. Hedging derivatives	X	X	(205,004)	(205,004)	(32,572)
6. Financial assets	X	X	X	(519)	(63,981)
Total	(1,617,519)	(386,922)	(207,286)	(2,212,246)	(651,970)
<i>of which interest debt for leasing</i>	4,516	-	-	4,516	4,358

Line 1.1 “Due to central banks” includes EUR 409.0 mln referring to negative interest on longer-term TLTRO III loan transactions plus a further EUR 131.6 mln of interest relating to short-term MRO/LTRO auctions in which the Bank participated in 2023.

Lines “1.2 Due to banks” and “1.3 Due to customers”, in the “Deposits” column, include interest on payables under repo 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 financial year on bonds and certificates of deposit valued at amortised cost; the increase over last year is related to the two new issues in February and August 2023.

Line 5 “Hedging derivatives”, column “Other transactions”, includes the differentials relating to hedging derivatives to correct the interest expense recognised on the hedged fixed-rate commercial and bond deposits; the increase compared to the comparative period is attributable to the rise in interest rates recorded during 2023, which resulted in net negative differentials on the derivatives that the Bank has in place to hedge the aforementioned fixed-rate liabilities.

Line “6. Financial assets” highlights the negative interest accrued on financial assets. Last year, the amount of EUR 64.0 mln included EUR 55.2 mln referring to the negative remuneration of the excess reserves - with respect to the mandatory reserve - deposited with the Eurosystem.

For a trend analysis of the concerned items, reference should be made to the Consolidated 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 liabilities denominated in foreign currency for 2023 amounted to EUR 9.1 mln as compared to EUR 3.1 mln in 2022.

1.5 Spreads on hedging transactions

Items	Total	Total
	31 12 2023	31 12 2022
A. Positive spreads on hedging transactions	124,881	518
B. Negative spreads on hedging transactions	(223,784)	(87,293)
C. Balance (A+B)	(98,903)	(86,775)



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 2023	Total 31 12 2022
a) Financial instruments	113,838	84,957
1. Placement of securities	37,751	5,218
1.1 Underwriting on the basis of an irrevocable commitment	24,105	-
1.2 without irrevocable commitment	13,646	5,218
2. Reception and transmission of orders	21,518	18,971
2.1 Reception and transmission of orders of financial instruments	19,635	18,369
2.2 Execution of orders on behalf of customers	1,883	602
3. Other commission income related to activities linked to financial instruments	54,569	60,768
<i>of which: proprietary trading</i>	15,109	23,409
<i>of which: individual portfolio management</i>	39,460	37,359
b) Corporate Finance	7,798	7,222
1. M&A fees	-	-
2. Treasury services	7,752	6,846
3. Other fees and commission income related to Corporate finance activities	46	376
c) Investment advisory activities	2,641	3,840
d) Clearing and settlement	285	167
e) Custody and administration of securities	5,482	4,908
1. custodian bank	-	-
2. Other fees and commission income related to Custody and administration activities	5,482	4,908
f) Central administrative services for collective portfolio management	-	-
g) Trustee business	-	-
h) Payment services	493,135	503,677
1. Current accounts	214,268	231,464
2. Credit cards	66,365	67,007
3. Debit cards and other card payments	74,545	68,661
4. Transfers and other payment orders	66,683	63,531
5. Other fees and commission income related to payment services	71,274	73,014
i) Distribution of third-party services	484,593	546,306
1. Collective portfolio management	277,243	298,126
2. Insurance products	177,376	192,511
3. Other product	29,974	55,669
<i>of which: individual portfolio management</i>	-	-
j) Structured Finance	-	-
k) Securitisation servicing activities	66	217
l) Loan commitments given	173,214	166,467
m) Financial guarantees	49,019	47,743
<i>of which: credit derivatives</i>	-	-
n) Lending transactions	77,490	45,534
<i>of which: factoring services</i>	15,070	-
o) Currency trading	3,546	4,663
p) Commodities	-	-
q) Other fees and commission income	52,015	13,549
<i>of which: management of shari'ah multilateral trading facilities</i>	-	-
<i>of which: management of organized trading systems</i>	-	-
Total	1,463,122	1,429,250

Line q) "Other fee and commission income" includes EUR 14.9 mln related to leasing operations, EUR 10.1 mln related to the preliminary investigation of tax credits and to the recovery of expenses incurred by the Bank for the finalisation of transactions, and finally EUR 2.9 mln of agency fees for the role held by Banca MPS as lead/agent of pooled loans.

For an analysis of the fee and commission income and for the disclosure on disaggregation of revenues, as required by IFRS 15.114-115, please refer to Part C of the Notes to the Consolidated Financial Statements, which outlines the trend in fees and commissions for each of the operating segments identified, for the services rendered and according to geographic area served. The disclosure for performance obligations is provided for the main services offered by the Bank, in accordance with IFRS 15.113 and 119:



- collection and payment services, including the offer to customers of credit and debit cards issued by the Bank. For these services, the customer pays an annual fee in advance for the administrative management of the card, recognised over time, as well as fees calculated on the individual transactions linked to the card's configuration, which, if not included in the annual fee, are recognised at a point in time as 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. Within this context, the fees received for various products offered to customers 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 refers to a performance obligation fulfilled over time, while the second refers to services performed at a specific time and compensated separately from the quarterly fee, and which are structured as a performance obligation fulfilled at a point in time;
- distribution of third-party products and services based on partnership agreements with external counterparties, for which placement commissions are collected, recorded at a point in time as they are compensation for the intermediation performance obligation provided by the Bank, and continuing commissions connected to the administrative management of the customer in the network, recorded over time, as they represent compensation for the performance obligation rendered over the course of the investment's duration. Some distribution agreements also include variable commissions, recognised by external counterparties upon achieving certain placement volumes or other annual metrics envisaged in the distribution agreements. Based on the various contractual provisions and in accordance with provisions contained in IFRS 15, if conditions apply in the interim periods, analyses are carried out in order to determine if there are conditions that allow the advance accounting of the revenue or a portion thereof. The advance recognition is carried out exclusively if it is highly likely that, once the uncertainty has been resolved, there is no downward adjustment of the recorded amount. Lastly, some contracts contain claw-back clauses, which entail, in the event certain conditions apply, the full or partial reimbursement of placement commissions previously recognised upon execution of the initial performance obligation (i.e. point in time): in this case, the claw-back clause represents a variable component of the transaction price, since the amount recognised upon product placement is not definitive, but will depend on future events that are beyond the control of the Bank. In such situations the amount of the commissions that could potentially be subject to restitution is estimated, charging the amount that is expected to be returned to the third party to a specific risk provision; the income that is posted to the income statement is equal to the amount recognised against the performance obligation for the placement activity carried out during the financial year, net of the amount set aside in the provision;
- individual portfolio management, in the context of assets linked to financial instruments, 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;
- complex financial services including consultancy, advisory/asseveration/underwriting and order collection. The contracts may provide for various types of fees and commissions associated with the various services offered. Some of these are linked to activities performed throughout the contract's duration (over time) and paid by the customer regardless of the outcome of the activities, while others are services for which the customer pays only if certain identified events occur, therefore, they are connected to services provided at a specific point in time. The first type of fee, associated with a performance obligation over time, is recognised throughout the contract's duration, while the second is recorded when the event occurs, as it represents compensation for a performance obligation carried out at a point in time.

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With regard to the revenue breakdown (IFRS 15.116-118), it should be noted that EUR 1.6 mln has been recognised as the adjustment price component accrued during the year on commissions collected for the placement of third-party services by the Bank in the previous year.

This line includes the reversal of revenues for EUR 4.1 mln made in the financial year against a provision for risks in accordance with IFRS 15, in consideration of the claw-back clauses set forth in a third-party product placement contract.



2.2 Fee and commission income: distribution channels of products and services

Channel/Sectors	31 12 2023	31 12 2022
a) Group branches	546,385	575,048
1. portfolio management	39,454	37,359
2. placement of securities	37,751	3,059
3. third party services and products	469,180	534,630
b) "Door-to-door" sales	1,567	2,865
1. portfolio management	6	-
2. placement of securities	-	2,159
3. third party services and products	1,561	706
c) Other distribution channels	13,852	10,970
3. third party services and products	13,852	10,970

2.3 Fee and commission expense: breakdown

Type of service / Amount	Total 31 12 2023	Total 31 12 2022
a) Financial Instruments	(4,356)	(3,258)
<i>of which: trading in financial instruments</i>	(2,956)	(2,804)
<i>of which: placement of financial instruments</i>	-	-
<i>of which: individual portfolio management</i>	(1,400)	-
- own portfolio	-	-
- third-party portfolio	(1,400)	-
b) Clearing and settlement	(2,173)	(9)
c) Custody and administration	(3,793)	(4,078)
d) collection and payment services	(74,841)	(73,037)
<i>of which: credit cards, debt cards and other payment cards</i>	(59,641)	(47,729)
e) Securitisation servicing activities	-	-
f) Loan commitments received	-	-
g) Financial guarantees received	(46,819)	(36,354)
<i>of which: credit derivatives</i>	-	-
h) Door-to-door sales of financial instruments, products and services	(957)	(769)
i) Currency trading	-	-
j) Other fee and commission expenses	(37,928)	(21,488)
Total	(170,867)	(138,993)

In the lines a) "Financial instruments of which: individual portfolio management - delegated to third parties" and b) "Clearing and settlement" include commissions payable on the collection of securities orders and for the clearing service on derivatives, acquired by the Bank in following the merger by incorporation of the subsidiary MPSCS.

In line "d) Collection and payment services", the increase was mainly due to commissions from the outsourcing of administrative servicing related to card management.

Line g) Financial guarantees received includes commissions of EUR 37,8 mln related to the purchase of protection against credit risk as part of the outstanding synthetic securitisations.

Line j) "Other fee and commission expense" includes EUR 7.4 mln relating to leasing transactions, of which EUR 3.4 mln for commissions and contributions for the brokerage of agents.

For a trend analysis of the items concerned, 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 2023			31 12 2022		
	Dividends	Similar Income	Total	Dividends	Similar Income	Total
A. Financial assets held for trading	4,851	1,103	5,954	6	-	6
B. Other financial assets mandatorily measured at fair value	-	8,092	8,092	-	11,733	11,733
C. Financial assets measured at fair value through other comprehensive income	12,501	-	12,501	9,599	-	9,599
D. Investments	116,471	-	116,471	107,360	-	107,360
Total	133,823	9,195	143,018	116,965	11,733	128,698

Line “B Other financial assets mandatorily measured at fair value” refers entirely to income distributed by private equity funds.

Line “C. Financial assets measured at fair value through other comprehensive income” includes the dividend of EUR 8.5 mln (EUR 8.5 mln as at 31 December 2022) collected from the equity investment in the Bank of Italy.

Line “D. Investments” is mainly composed of: AXA MPS Danni for EUR 40.0 mln (EUR 30 mln as at 31 December 2022), AXA MPS Vita for EUR 75.1 mln (unchanged compared to the 2022 figure), and Fondo Etrusco Distribuzione of EUR 1.0 mln (EUR 2.1 mln as at 31 December 2022).

Section 4 - Net profit (loss) from trading - Item 80

4.1 Net profit (loss) from trading: breakdown

Transactions / P&L items	Capital gains	Trading Profits	Capital losses	Trading Losses	Net Profit (Loss)	
					31 12 2023	31 12 2022
1. Financial assets held for trading	65,104	200,567	(17,802)	(76,931)	170,938	23
1.1 Debt securities	55,995	190,046	(11,835)	(73,590)	160,616	208
1.2 Equity instruments	4,497	9,116	(5,238)	(2,090)	6,285	(181)
1.3 Units of UCITS	4,612	1,388	(729)	(1,251)	4,020	(2)
1.4 Loans	-	-	-	-	-	-
1.5 Other	-	17	-	-	17	(2)
2. Financial liabilities held for trading	1,168	15,474	(30,915)	(51,564)	(65,837)	-
2.1 Debt securities	1,076	15,236	(30,823)	(51,151)	(65,662)	-
2.2 Deposits	-	-	-	-	-	-
2.3 Other	92	238	(92)	(413)	(175)	-
3. Other financial assets and liabilities: exchange differences	X	X	X	X	(7,192)	17,378
4. Derivatives	4,184,209	7,226,861	(4,080,794)	(7,420,755)	(43,218)	(17,830)
4.1 Financial derivatives:	4,159,687	7,198,418	(4,080,794)	(7,414,512)	(89,940)	(17,830)
- on debt securities and interest rates	4,128,134	6,390,605	(4,044,585)	(6,635,271)	(161,117)	(20,879)
- on equity instruments and stock indices	19,750	411,830	(24,378)	(374,884)	32,318	(223)
- on currency and gold	X	X	X	X	47,261	966
- other	11,803	395,983	(11,831)	(404,357)	(8,402)	2,306
4.2 Credit derivatives	24,522	28,443	-	(6,243)	46,722	-
<i>of which natural hedging connected with the fair value option</i>	X	X	X	X	-	-
Total	4,250,481	7,442,902	(4,129,511)	(7,549,250)	54,691	(429)



It should be noted that, based on the provisions set in the Bank of Italy Circular no. 262, the specification “of which: natural hedges related to the fair value option” refers to a particular type of hedge under IFRS 9. In this regard, it should be noted that there are no amounts to be valued, as the Bank opted to continue to use the hedge accounting regime under IAS 39.

During the financial year, the Credit Value Adjustment (CVA) decreased, generating a positive impact of EUR 2.8 mln on OTC derivatives; likewise, the Debit Value Adjustment (DVA) on OTC derivatives recorded a decrease with a consequent negative impact of EUR 20.5 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 2023	Total 31 12 2022
A. Gains on:		
A.1 Fair value hedging instruments	223,001	2,341,972
A.2 Hedged financial assets (fair value)	495,187	16,380
A.3 Hedged financial liabilities (fair value)	-	434,038
A.4 Cash-flow hedging derivatives	-	-
A.5 Assets and liabilities denominated in foreign currency	-	-
Total gains on hedging activities (A)	718,188	2,792,390
B. Losses on:		
B.1 Fair value hedging instruments	502,847	456,101
B.2 Hedged financial assets (fair value)	11,145	2,329,870
B.3 Hedged financial liabilities (fair value)	208,807	-
B.4 Cash-flow hedging derivatives	-	-
B.5 Assets and liabilities denominated in foreign currency	-	-
Total losses on hedging activities (B)	722,799	2,785,971
C. Net profit (loss) from hedging activities (A - B)	(4,611)	6,419
<i>of which: resulting from net position holding</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 these Notes to the Financial Statements.

More information on hedged assets and liabilities can be found in the tables in Part B of the Notes to the Financial Statements 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 2023			Total 31 12 2022		
	Gains	Losses	Net Profit (Loss)	Gains	Losses	Net Profit (Loss)
Financial assets						
1. Financial assets measured at amortised cost	19,054	(6,496)	12,558	77,755	(51,373)	26,382
1.1 Loans to banks	-	-	-	5	(25,213)	(25,208)
1.2 Loans to customers	19,054	(6,496)	12,558	77,750	(26,160)	51,590
2. Financial assets measured at fair value through other comprehensive income	1,034	-	1,034	1,233	-	1,233
2.1 Debt securities issued	1,034	-	1,034	1,233	-	1,233
2.2 Loans	-	-	-	-	-	-
Total assets	20,088	(6,496)	13,592	78,988	(51,373)	27,615
Financial liabilities measured at amortised cost	-	-	-	-	-	-
1. Due to banks	-	-	-	-	-	-
2. Due to customers	-	-	-	-	-	-
3. Debt securities issued	2	(179)	(177)	12	0	12
Total liabilities (B)	2	(179)	(177)	12	-	12

The column “Net profit (loss)” of the item “Financial assets measured at amortised cost” in line 1.2 “Loans to customers” mainly includes the net profits earned from the disposal of some Italian government securities.



Section 7 - Net profit (loss) from other financial assets and liabilities measured at fair value through profit or loss - Item 110

7.1 Net changes in other financial assets and liabilities measured at fair value through profit or loss: breakdown of financial assets and liabilities measured at fair value

Transaction/P&L items	Capital Gains	Realized profits	Capital losses	Realized losses	Net Profit (loss)	
					31 12 2023	31 12 2022
1. Financial assets	-	-	-	-	-	-
1.1 Debt securities issued	-	-	-	-	-	-
1.2 Loans	-	-	-	-	-	-
2. Financial liabilities	21	-	(3,142)	-	(3,121)	33,932
2.1 Debt securities issued	21	-	(3,142)	-	(3,121)	33,932
2.2. Deposits from banks	-	-	-	-	-	-
2.3. Deposits from customers	-	-	-	-	-	-
3. Other financial assets and liabilities: exchange differences	X	X	X	X	-	-
Total	21	-	(3,142)	-	(3,121)	33,932

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 or loss: breakdown of other financial assets mandatorily measured at fair value

Transaction/P&L items	Capital Gains	Realized profits	Capital Losses	Realized losses	Net profit (loss)	
					31 12 2023	31 12 2022
1. Financial assets						
1.1 Debt securities issued	1,980	8,796	(4,171)	(2,009)	4,596	(12,375)
1.2 Equity instruments	75	2,271	(1)	-	2,345	(472)
1.3 Units of UCITS	8,741	6	(4,676)	-	4,071	19,981
1.4 Loans	1,784	-	(2,302)	-	(518)	6,352
2. Other financial assets: exchange differences	X	X	X	X	(1,620)	1,663
Totale	12,580	11,073	(11,150)	(2,009)	8,874	15,149

The net result, in line “1.1 Financial assets - Debt securities issued”, includes the gain on disposal of EUR 7.1 mln relating to the redemption of the notes referring to the “Norma” securitisation and the capital loss of the junior notes of the “Siena NPL” securitisation for EUR 3.4 mln.

The net result, in line “1.3 Financial assets - UCITS units”, mainly refers to NPE credit funds.

Line 1.4 “Financial Assets - Loans” includes in the column “Capital Gains” write-backs relating to loans for which there has been an improvement in the risk profile; the column “Capital Losses” includes write-downs of loans classified as “unlikely to pay”.



Section 8 - Net impairment (losses)/reversals for credit risk - Item 130

8.1 Net impairment (losses)/reversals for credit risk on financial assets measured at amortised cost: breakdown

Transaction/P&L items	Net impairment (losses)						Reversals				Total 31 12 2023	Total 31 12 2022
	Stage 1	Stage 2	Stage 3				Stage 1	Stage 2	Stage 3	Purchased or originated credit impaired financial assets		
			Purchased or originated credit impaired financial assets									
			Write-off	Others	Write-off	Others						
A. Loans to banks	(270)	(152)	-	(593)	-	-	700	447	-	-	132	3,684
- Loans	(235)	(152)	-	(593)	-	-	698	447	-	-	165	3,597
- Debt securities	(35)	-	-	-	-	-	2	-	-	-	(33)	87
B. Loans to customers	(56,893)	(223,108)	(28,831)	(607,101)	-	(81)	143,058	121,380	265,643	545	(385,388)	(356,615)
- Loans	(55,318)	(219,176)	(28,831)	(607,101)	-	(81)	141,416	121,380	265,643	545	(381,523)	(354,268)
- Debt securities	(1,575)	(3,932)	-	-	-	-	1,642	-	-	-	(3,865)	(2,347)
C. Total	(57,163)	(223,260)	(28,831)	(607,694)	-	(81)	143,758	121,827	265,643	545	(385,256)	(352,931)

8.2 Net impairment (losses)/reversals for credit risk on financial assets measured at fair value through other comprehensive income: breakdown

Transactions/ P&L items	Net impairment (losses)						Reversals				Total 31 12 2021	Total 31 12 2021
	Stage 1	Stage 2	Stage 3		Purchased or originated credit impaired financial assets		Stage 1	Stage 2	Stage 3	Purchased or originated credit impaired financial assets		
			Write-off	Others	Write-off	Others						
A. Debt securities issued	(60)	(42)	-	-	-	-	468	216	-	-	582	(89)
B. Loans	-	-	-	-	-	-	-	-	-	-	-	-
- to banks	-	-	-	-	-	-	-	-	-	-	-	-
- to customers	-	-	-	-	-	-	-	-	-	-	-	-
Total	(60)	(42)	-	-	-	-	468	216	-	-	582	(89)



Section 9 - Gains/losses from contractual changes without cancellation - Item 140

9.1 Modification gains/(losses): breakdown

This item, negative for EUR 6.8 mln as at 31 December 2023 (positive for EUR 3.2 mln as at 31 December 2022) includes the impacts related to contractual changes on medium/long term loans to customers which, without any substantial change, according to the provisions of IFRS 9, as well as the Group's accounting regulations, do not entail accounting derecognition of the assets but rather the recognition to profit and loss of the changes made to the contractual cash flows.

Section 10 - Administrative expenses - Item 160

10.1 Personnel expenses: breakdown

Type of Expense / Area	Total 31 12 2023	Total 31 12 2022
1. Employees	(1,174,180)	(2,243,171)
a) wages and salaries	(828,833)	(948,166)
b) social-welfare charges	(225,971)	(262,570)
c) severance pay	(54,042)	(61,375)
d) social security expenses	-	-
e) provision for staff severance pay	(2,689)	(2,656)
f) pension fund and similar obligations:	(70)	(80)
- defined contribution	-	-
- defined benefit	(70)	(80)
g) contributions to external pension funds:	(20,477)	(23,449)
- defined contribution	(20,477)	(23,449)
- defined benefit	-	-
h) costs related to share-based payments	-	11
i) other employee benefits	(42,098)	(944,886)
2. Other staff	(65)	(127)
3. Directors and Statutory Auditors	(1,888)	(1,741)
4. Retired personnel	(19)	(24)
5. Recovery of expenses for employees of the Bank: seconded to other entities	15,842	35,044
6. Reimbursement of expenses for employees of other entities: seconded to the bank	(1,646)	(19,851)
Total	(1,161,956)	(2,229,870)

The overall reduction in personnel expenses is mainly due to the 2022 manoeuvre of early retirement/solidarity fund only partially offset by the higher charges resulting from i) the entry of personnel from the merged subsidiaries and ii) the renewal of the national collective labour agreement for bankers and finally iii) the variable incentive component of remuneration, not set up in 2022.

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 "i) other employee benefits", amounting to EUR 42,1 mln, recorded a significant decrease compared to the previous year. The figure as at 31 December 2022 included EUR 905.7 mln referring almost entirely to the activation of the staff solidarity fund.

Line 5 "Recovery of expenses for employees of the Bank seconded to other entities" decreased by a total of EUR 19.2 mln, of which EUR 13.4 mln due to the reinstatement of personnel seconded to the subsidiaries MPSCS and MPSLF, following the merger transaction. As at 31 December 2023, the line includes approximately EUR 9.5 mln (EUR 15.7 mln as at 31 December 2022) relating to Fruendo and due to the reinstatement and subsequent secondment of some employees in 2020.



10.2 Average number of employees by category

Category / Average Number	31 12 2023	31 12 2022
Employees:	15,369	18,228
a) executives	149	171
b) middle managers	5,693	6,998
c) remaining staff	9,527	11,059
Other personnel	-	-
Total	15,369	18,228

10.3 Defined benefit company pension funds: costs and revenues

Items/Amounts	31 12 2023			31 12 2022		
	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	(70)	-	(2,689)	(76)	-	(2,656)
Current service cost and gains (losses) arising from settlements [°]	-	-	-	(4)	-	-
Past service cost	-	-	-	-	-	-
Gains (losses) arising from settlements ^{°°}	-	-	-	-	-	-
Other operating costs	-	-	-	-	-	-
Total	(70)	-	(2,689)	(80)	-	(2,656)

[°] Pursuant to par. 100 of LAS 19, it should be noted that the pension cost for past service 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 2023	31 12 2022
Stamp duties	(150,986)	(145,451)
Indirect taxes and duties	(24,310)	(29,258)
Municipal real estate property tax	(20,074)	(17,541)
Subscription and purchase of publications	(1,009)	(657)
Cleaning service contracts	(16,214)	(26,294)
Insurance	(16,040)	(18,592)
Sundry lease payment and rentals	(102,125)	(97,159)
Remuneration of external professionals	(58,483)	(63,386)
Lease of equipment	(25,830)	(25,766)
Utilities	(44,092)	(34,450)
Maintenance of properties (used in the business)	(30,813)	(31,601)
Postage	(15,550)	(15,780)
Advertising, sponsorships and promotions	(1,162)	(1,029)
Membership dues	(3,221)	(2,765)
Reimbursement of employee car and travel expenses	(2,390)	(1,560)
Security services	(6,714)	(5,410)
Software	(51,488)	(54,786)
expenses for personnel training	(2,167)	(3,334)
Expenses for services provided by companies and entities of the MPS Group	-	(668)
Representation expenses	(339)	(305)
Corporate entertainment expenses	(18,043)	(17,395)
Printing and stationery	(4,498)	(3,655)
Telephon, telefax and telegraph	(7,294)	(7,669)
Transportation	(18,254)	(19,712)
Sundry occupancy expenses and refunds for release of immovable property used in the business	(5,255)	(6,272)
Contributions to Resolution Funds (SRF) and Deposits Guarantee Schemes (DGS)	(129,488)	(154,207)
DTA fee	(62,927)	(62,916)
Data transmission	(5,666)	(7,644)
Others	(10,922)	(16,606)
Total	(835,354)	(871,868)

The line “Sundry lease payments and rentals” includes EUR 71.5 mln (EUR 72.9 mln as at 31 December 2022) referring to costs for outsourced services regarding back office accounting and administrative activities related to the management and provision of specific services by the Bank. These services entail decreasing considerations over the duration of the contract, against a constant volume of services received by the Bank. In accordance with the accounting policies of the Group (see Part A, Other information - Costs for constant services and decreasing payments), the recognition of the afore-mentioned costs in the income statements follows a linear trend over the contract duration with the consequent necessity for the Bank to recognise a prepayment. The cumulative figure as at 31 December 2023 amounted to EUR 225.8 mln (EUR 228.6 mln as at 31 December 2022) and is shown under item “Other assets”, line “Accrued income and prepaid expenses not attributable to its own separate item” of Part B of these Notes to the financial statements. The line also includes costs relating to short-term and low-value lease agreements for EUR 3.5 mln (EUR 2.9 mln as at 31 December 2022).

Line “Contributions to resolution funds (SRF and NRD) and Deposit guarantee Systems (DGS)” amounting to EUR 129.5 mln (EUR 154.2 mln as at 31 December 2022), is composed of SRF-related charges of EUR 58.6 mln (EUR 69.5 mln as at 31 December 2022), and contributions paid to the DGS of EUR 70.9 mln (EUR 84.7 mln as at 31 December 2022).

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 Italian Law Decree no. 59 of 3 May 2016, converted into Italian 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 2023	Total 31 12 2022
1) financial guarantees issued	3,885	(5,535)	(28,496)	(30,146)	(20,678)
Provision for the year	(5,354)	(7,793)	(29,071)	(42,218)	(34,973)
Write-backs	9,239	2,258	575	12,072	14,295
2) Commitments to disburse funds	4	1,029	14,129	15,162	18,290
Provision for the year	(6,745)	(2,688)	-	(9,433)	(5,654)
Write-backs	6,749	3,717	14,129	24,595	23,944
Total	3,889	(4,506)	(14,367)	(14,984)	(2,388)

11.2 Net provisions relative to other commitments and guarantees issued: breakdown

At the reporting date of these Financial Statements and for the financial year of comparison, there were no provisions of this type.

11.3 Other net provisions for risks and charges: breakdown

Items/Amount	31 12 2023			31 12 2022		
	Provisions for the year	Write-backs	Net Provisions	Provisions for the year	Write-backs	Net Provisions
Legal and tax disputes	(116,843)	503,675	386,832	(178,570)	251,198	72,628
- cost	(87,619)	500,023	412,404	(168,488)	183,823	15,335
- discounting effect	(29,224)	3,652	(25,572)	(10,082)	67,376	57,294
Personnel expenses	(5,165)	5,127	(38)	(31,584)	8,719	(22,865)
Other risks and charges	(20,202)	102,616	82,414	(101,806)	84,580	(17,226)
Total	(142,210)	611,418	469,208	(311,960)	344,497	32,537

As at 31 December 2023, “Legal and tax disputes” and “Other risks and charges” recorded a significant net write-back due mainly to the improvement in the risk profile of legal, civil and criminal proceedings respectively, and other out-of-court claims concerning financial information disclosed in the period 2008-2015, following the favourable rulings issued in the last quarter of 2023.



Section 12 - Net value adjustments to/recoveries on property, plant and equipment - Item 180

12.1 Net value adjustments on property, plant and equipment: breakdown

Assets / P&L items	Depreciations	Impairment losses	Recoveries	Net Profit (loss) 31 12 2023	Net Profit (loss) 31 12 2022
A. Property, plant and equipment					
1 Used in the business	(99,907)	(21)	-	(99,928)	(108,783)
- owned	(57,146)	-	-	(57,146)	(63,628)
- right of use acquired through leasing	(42,761)	(21)	-	(42,782)	(45,155)
2 held for investment	-	-	-	-	-
3 Inventories	-	-	-	-	-
Total	(99,907)	(21)	-	(99,928)	(108,783)

Section 13 - Net adjustments to (recoveries on) intangible assets - Item 190

13.1 Net value adjustments to intangible assets: breakdown

Assets/P&L items	Depreciations	Impairment losses	Recoveries	Net profit (loss) 31 12 2023	Net profit (loss) 31 12 2022
A.Intangible assets					
<i>of which: software</i>	(60,211)	(697)	-	(60,908)	(60,838)
A.1 Owned	(60,211)	(697)	-	(60,908)	(62,020)
- Generated internally by the company	(14,456)	(589)	-	(15,045)	(15,353)
- Other	(45,755)	(108)	-	(45,863)	(46,667)
A.2 Right of Use acquired through leasing	-	-	-	-	-
Total	(60,211)	(697)	-	(60,908)	(62,020)



Section 14 - Other operating expenses/income - Item 200

14.1 Other operating expenses: breakdown

Items/Amounts	Total	Total
	31 12 2023	31 12 2022
Costs of robberies	(510)	(377)
Amortisation on improvements of third-party goods recognized as “Other Assets”	(5,745)	(5,524)
Costs from finance lease transactions	(5,644)	-
Costs from judgments and settlement agreements	(19,777)	(29,256)
Other expenses	(23,988)	(12,995)
Total	(55,664)	(48,152)

14.2 Other operating income: breakdown

Items/Amounts	Total	Total
	31 12 2023	31 12 2022
Rental income	9,305	10,849
Recovery of taxes	157,142	161,327
Recovery of insurance premiums	1,466	2,389
Income from finance lease transactions	6,110	-
Recovery of other expenses	29,589	34,447
Others	61,010	97,710
Total	264,622	306,722

The lines “Costs from finance lease transactions” and “income from finance lease transactions” resulting after the merger by incorporation of the subsidiary MPSLF.

The amount of EUR 29.6 mln classified under “Recovery of other expenses” includes, among other things, the compensation of legal fees incurred for the enforced recovery of bad loans of EUR 4.0 mln (EUR 4.0 mln as at 31 December 2022).

The Bank has no income deriving from the sublease of right-of-use assets (IFRS 16.53 (f))

“Other operating income” does not include any revenues under the scope of IFRS 15.

The Bank does not have variable income not related to an index or a rate deriving from operating leases (IFRS 16.90 b).



Section 15 - Gains (losses) on investments - Item 220

15.1 Gains (losses) on investments: breakdown

P&L items/Sectors	Total 31 12 2023	Total 31 12 2022
A. Income	652	906
1. Revaluations	-	-
2. Gains on disposal	-	-
3. Write-backs	-	-
4. Other income	652	906
B. Expense	(9,229)	(103)
1. Write-downs	-	-
2. Impairment losses	(6,811)	(54)
3. Losses on disposal	-	-
4. Other expenses	(2,418)	(49)
Net Profit (Loss)	(8,577)	803

Line B2 “Impairment losses” refers, as at 31 December 2023, to the subsidiary Fidi Toscana (EUR 6.6 mln) and Atace Reoco S.r.l. (EUR 0.2 mln). For information on the methodology for determining impairment losses, please see section 10.5, part B, of these notes to the financial statements

Line B4 “Other expenses” includes EUR 2.4 mln referring to the rollover transaction of the Socrate real estate fund with the acquisition of the shares of the new real estate fund Democrito. For information on the transaction, please refer to section 7 Equity investments in Part B of these Notes to the financial statements.

Section 16 - Net gains (losses) on property, plant and equipment and intangible assets measured at fair value - Item 230

16.1 Net gains (losses) on property, plant and equipment and intangible assets measured at fair value (or revalued) or at presumed realisable value: breakdown

Assets/P&L item	Revaluations (a)	Write-downs (b)	Exchange difference		Net profit (loss) 31 12 2023 (a-b+c-d)	Net profit (loss) 31 12 2022
			positive (c)	negative (d)		
A. Property, plant and equipment	6,365	58,726	-	-	(52,361)	(28,108)
A.1 Used in the business	2,805	30,610	-	-	(27,805)	(11,017)
- owned	2,805	30,610	-	-	(27,805)	(11,017)
- Right of Use acquired through leasing	-	-	-	-	-	-
A.2 held for investment	3,540	26,964	-	-	(23,424)	(15,759)
- owned	3,540	26,964	-	-	(23,424)	(15,759)
- Right of Use acquired through leasing	-	-	-	-	-	-
A.3 Inventories	20	1,152	-	-	(1,132)	(1,332)
Total	6,365	58,726	-	-	(52,361)	(28,108)

The item, which was negative for a total of EUR 52.4 mln (EUR 28.1 mln was the negative balance of the previous financial year), includes the results of the fair value measurement of “revalued property, plant and equipment used in the business” and “property, plant and equipment held for investment purposes” and finally “inventories of property, plant and equipment”, represented by owned real estate assets.



Section 17 - Impairment of goodwill - Item 240

17.1 Impairment of goodwill: breakdown

In 2023 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 financial years.

Section 18 - Gains (losses) on disposal of investments – Item 250

18.1 Gains (losses) on disposal of investments: breakdown

P&L items/Sectors	Total	Total
	31 12 2023	31 12 2022
A. Property	151	452
- Gains on disposal	156	453
- Losses on disposal	(5)	(1)
B. Other assets	(74)	(120)
- Gains on disposal	3	1
- Losses on disposal	(77)	(121)
Net Profit (Loss)	77	332

The Bank has not recognised any gains or losses deriving from sale and lease-back transactions (IFRS 16.53 letter i).

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 2023	31 12 2022
1. Current tax (-)	(62,172)	(7,159)
2. Adjustments to current tax of prior years (+/-)	4,754	48,072
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	8,567	-
4. Changes in prepaid taxes (+/-)	413,749	406,021
5. Changes in deferred taxes (+/-)	3,369	4,385
6. Tax expense for the year (-) (-1+/-2 +3+/-4+/-5)	368,267	451,319

The amount in line 4. “Change in prepaid taxes” reflects the positive imbalance between the overall effect of the DTA valuation arising from the results of the probability test, amounting to EUR 827.2 mln, and the net reversals for the year. The result of the valuation of the DTAs for the year is impacted by the non-recurring income of EUR 545.2 mln relating to the reassessment of DTAs from consolidated tax losses caused by the repeal of the ACE (for more information, see Section 10.7 - Part B - Balance Sheet Information of these Notes to the financial statements).



19.2 Reconciliation of theoretical to actual tax charge

Items/Amounts	31 12 2023	%	31 12 2022	%
Pre-tax profit (loss) from continuing operations	1,653,259		(587,101)	
Theoretical IRES Payable	(454,646)	27.5%	161,453	27.5%
Permanent decreases	(5,775)	0.3%	(3,480)	-0.6%
Losses on the disposal/valuation of subsidiaries and associates classified at fair value through other comprehensive income	20	0.0%	(16)	0.0%
Losses on the disposal/valuation of subsidiaries and associates	(1,873)	0.1%	(12)	0.0%
Non-deductible administrative expenses (Municipal real estate property tax, vehicles, telephone etc)	(3,922)	0.2%	(3,452)	-0.6%
Permanent decreases	65,509	-4.0%	52,974	9.0%
Gains on the disposal/valuation of subsidiaries and associates classified at fair value through other comprehensive income	(115)	0.0%	(71)	0.0%
Gains on the disposal/valuation of subsidiaries and associates	486	0.0%	236	0.0%
Deduction IRAP	17	0.0%	-	0.0%
Deduction ACE	33,963	-2.1%	25,025	4.3%
Excluded dividends	31,158	-1.9%	27,784	4.7%
DTA write-downs related to prior tax losses	670,410	-40.6%	47,855	8.2%
DTA effects- others	154,423	-9.3%	315,254	53.7%
DTA ACE effects	2,361	-0.1%	32,362	5.5%
Effect due to non-registration of DTA on tax loss of current year	-	0.0%	(225,084)	-38.3%
Effect due to IRAP credit valuation rising from ACE surplus	-	0.0%	46,354	7.9%
Other components (IRES relative to previous years, spreads between italian and foreign tax rate, etc)	(1,771)	0.1%	(1,377)	-0.2%
Effective IRES payable	430,511	-26.0%	426,310	72.6%
Profit (loss) theoretical IRAP at nominal rate	(76,877)	4.65%	27,300	4.65%
Economic items not relevant for IRAP purposes	20,711	-1.3%	2,211	0.4%
Value adjustments and credit losses	35	0.0%	172	0.0%
Non deductible cost of personnel	(134)	0.0%	(133)	0.0%
Profit (loss) on subsidiaries and associates	(444)	0.0%	(96)	0.0%
Other non - deductible administrative expenses (10%)	(3,884)	0.2%	(4,054)	-0.7%
Amortization non-deductible (10%)	(758)	0.0%	(825)	-0.1%
Value adjustments on goodwill	21,372	-1.3%	1,904	0.3%
Other P&L items not relevant	1,440	-0.1%	2,574	0.4%
Excluded dividends	3,083	-0.2%	2,670	0.5%
Increase regional rates effect	(10,149)	0.6%	5,755	1.0%
Charge from not recognised tax loss carryforward IRAP	-	0.0%	(40,114)	-6.8%
DTA valuation effect	-	0.0%	27,658	4.7%
Tax refunds from previous years	4,077	-0.2%	1,469	0.3%
Other components (IRAP relative to previous year, spreads between italian and foreign tax rate, etc)	(6)	0.0%	729	0.1%
Effective IRAP payable	(62,244)	3.8%	25,008	4.3%
Total effective IRES and IRAP tax expenses	368,267	-22.3%	451,319	76.9%

The reconciliation relating to IRES includes, aside from the main tax at the rate of 24%, also the additional tax of 3.5% introduced by Italian Law no. 208 of 28 December 2015, par. 65-66.



The reconciliation shows that the theoretical charge of the nominal taxation on the pre-tax profit was more than offset in the year by the income deriving from the valuation of the DTAs; in the table, the lines entitled “DTA valuation effect” express the amount of deferred tax assets, accrued but not recognised in the financial statements of the previous year due to lack of estimated future taxable income, which were revalued in the current financial statements, in part to the extent in which were mostly used during the year to offset the positive final income higher than forecasts, and in part to the extent to which they will be mostly recovered in future years following the repeal of the ACE. Apart from the aforementioned extraordinary factors, in accordance with current tax regulations and assuming the achievement of the income results outlined in the Group’s business plan, it is expected that the Bank will in any case record a progressive reassessment of DTAs from tax losses in each of the next financial years in the medium term (until they are fully recognised), with corresponding income under taxes in the income statement, which will reduce the tax rate in the financial statements; this, considering the high amount of tax loss carried forwards available with off-balance sheet DTAs and the prudential assumptions underlying the probability test (time period limited to 20 years and application of a discount rate to the prospective results). For further information, please refer to paragraph 10.7 – Part B – Information on the Balance Sheet of these Notes to the financial statements.

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 were not prepared as this category does not appear in the financial statements as at 31 December 2023 and 31 December 2022.

Section 21 – Other information

No additional disclosure to that presented in accordance with the international accounting standards and Circular no. 262 of the Bank of Italy is required.

Section 22 - Earnings per Share (EPS)

For the following section, see the description in the Consolidated Financial Statements.



Part D - Statement of Comprehensive Income

Statement of Comprehensive Income

Items	Total 31 12 2023	Total 31 12 2022
10. Profit (loss) for the year	2,021,525	(135,782)
Other income components without reversal to profit or loss	(23,832)	(15,180)
20. Equity instruments measured at fair value through other comprehensive income	(4,491)	2,580
a) changes in fair value	2,228	2,104
b) Transfer to other component of equity	(6,719)	477
30. Financial liabilities designated at fair value through profit or loss (change in the entity's own credit rating)	(4,111)	(7,513)
a) changes in fair value	(4,111)	(7,513)
b) Transfer to other component of equity	-	-
50. Property, plant and equipment	(29,459)	(33,118)
70. Defined benefit plans	7,486	13,285
80. Non-current assets and groups of assets held for sale	(2,790)	6
100. Tax income related to other income components without reversal to profit & loss	9,533	9,580
Other income components with reversal to profit or loss	69,512	(157,368)
120. Exchange differences:	(1,526)	1,025
a) changes in value	-	-
b) reversal to profit and loss	-	-
c) other changes	(1,526)	1,025
130. Cash flow hedges:	(7,537)	(8,876)
a) changes in fair value	2,383	-
b) reversal to profit and loss	-	-
c) other changes	(9,920)	(8,876)
<i>of which: resulted of net position</i>	-	-
150. Financial assets (other than equity instruments) measured at fair value through other comprehensive income	112,655	(226,502)
a) changes in value	96,865	(220,788)
b) reversal to profit and loss	15,790	(5,714)
-impairment provisions	-	-
-relised net gains/losses	15,790	(5,714)
c) other changes	-	-
180. Tax income related to other income components whit reversal to profit or loss	(34,080)	76,985
190. Other income components	45,680	(172,548)
200. Total comprehensive income (Item 10 + 130)	2,067,205	(308,330)



Part E - Information on risks and hedging policies

Section 1 – Credit Risk	749
Section 2 - Market risk	785
Section 3 - Derivatives and hedging policies	789
Section 4 – Liquidity risk	803
Section 5 - Operational risk	808

Note: Public Disclosure (Basel III Pillar) is published on the Group's website:
<https://www.gruppomps.it/investor-relations>.



Foreword

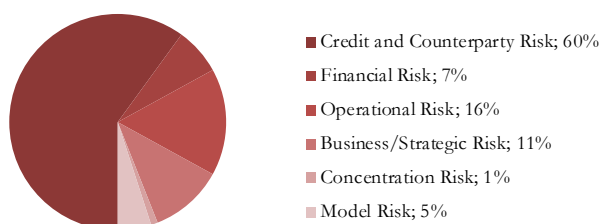
This Part of the Notes to the Financial Statements provides quantitative information on risks referring to Banca Monte dei Paschi di Siena. For qualitative information on the risk management process and on the management and monitoring of risks, please refer to Part E of the Notes to the Consolidated Financial Statements.

Analysis of the Internal Capital

As at 31 December 2023, the Bank's Overall Economic Capital (excluding intra-group transactions) is attributable for approximately 60% to credit and counterparty risk (which already includes the requirements relating to issuer risk on the Banking Book, equity investment risk and real estate risk), for about 16% to operational risks, 11% to strategic risks, for about 7% to financial risks, for 5% to model risk and for about 1% to concentration risk.

Internal Capital

Monte dei Paschi di Siena Bank - 31.12.2023





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 “on-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 or loss, measured at fair value through other comprehensive income, measured at amortised cost, non-current financial assets held for sale and disposal groups). Sight receivables from banks and central banks fall within the definition of on-balance sheet exposures but are conventionally excluded from the tables in Section 1, except in the cases expressly indicated in which they must be considered;
- 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, impairment (losses), trend and breakdown by business sector

A.1.1 Breakdown of financial assets by portfolio and credit quality (book values)

Portfolio/Quality	Bad loans	Unlikely to pay	Past-due non-performing exposures	Past-due performing exposures	Performing exposures	Total
1. Financial assets measured at amortised cost	424,051	1,223,049	93,113	474,545	89,033,391	91,248,149
- of which forborne	93,506	612,124	7,686	44,187	1,076,002	1,833,505
2. Financial assets measured through other comprehensive income	-	-	-	-	2,224,582	2,224,582
- of which forborne	-	-	-	-	-	-
3. Financial assets designated at fair value	-	-	-	-	-	-
- of which forborne	-	-	-	-	-	-
4. Financial assets mandatorily measured at fair value	2,874	2,462	184	40,374	136,168	182,062
- of which forborne	15	1,889	26	-	18,131	20,061
5. Financial asset held for sale	-	-	-	-	-	-
- of which forborne	-	-	-	-	-	-
Total 31 12 2023	426,925	1,225,511	93,297	514,919	91,394,141	93,654,793
Total 31 12 2022	315,827	945,475	23,750	314,883	91,505,103	93,105,038

As at 31 December 2023, the Bank has outstanding forborne positions for a total value of EUR 1,853.5 mln (EUR 1,931.6 mln as at 31 December 2022) of which EUR 715.2 mln related to non-performing exposures (EUR 535.3 mln as at 31 December 2022) and EUR 1,138.3 mln to performing exposures (EUR 1,772.1 mln as at 31 December 2021). For further information on these exposures, please refer to table A.1.7 below.



A.1.2 Breakdown of financial assets by portfolio and credit quality (gross and net values)

Portfolio/quality	Non performing assets				Performing assets			Total (Net exposure)
	Gross exposure	Impairment (loss)	Net exposure	Total Partial Write-off**	Gross exposure	Impairment (loss)	Net exposure	
1. Financial assets measured at amortised cost	3,376,742	1,636,529	1,740,213	29,190	89,991,255	483,319	89,507,936	91,248,149
2. Financial assets measured through other comprehensive income	-	-	-	-	2,226,743	2,161	2,224,582	2,224,582
3. Financial assets designated at fair value	-	-	-	-	X	X	-	-
4. Financial assets mandatorily measured at fair value	30,846	25,326	5,520	2	X	X	176,542	182,062
5. Financial asset held for sale	-	-	-	-	-	-	-	-
Total 31 12 2023	3,407,588	1,661,855	1,745,733	29,192	92,217,998	485,480	91,909,060	93,654,793
Total 31 12 2022	2,267,955	982,903	1,285,052	16,758	91,968,228	364,681	91,819,987	93,105,038

** Value to be presented for disclosure purposes

At the reporting date, the Bank has 29 exposures relating to creditors who have applied for a “blank” arrangement procedure (53 in 2022) for a net exposure of approximately EUR 27.1 mln (EUR 14.3 mln in 2022). As at 31 December 2023, there were no outstanding positions relating to creditors who resorted to the creditor arrangement procedure on a going concern basis (1 position in 2022).

As at 31 December 2023, the Bank holds impaired financial assets acquired for a nominal value of EUR 29,4 mln, classified in the portfolio “Financial assets measured at amortised cost” at the price of EUR 2.3 mln.

The following table provides evidence of the credit quality referring to credit exposures classified in the portfolio of financial assets held for trading (securities and derivatives) and hedging derivatives (not shown in the previous table):

	Low quality assets		Other assets
	Cumulative losses	Net exposure	Net exposure
1 Financial assets held for trading	58,511	332	5,745,917
2 Hedging derivatives	-	-	662,012
Total 31 12 2023	58,511	332	6,407,929
Total 31 12 2022	56	1,032	1,592,709



A.1.3 - Breakdown of financial assets by past due ranges (book values)

Portfolio/staging	Stage 1			Stage 2			Stage 3			Purchased or originated credit impaired financial assets		
	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	Up to 30 days	from 30 to 90 days	Over 90 days
1. Financial assets measured at amortised cost	89,077	-	-	255,971	93,195	36,302	78,173	153,566	869,444	48	-	1,339
2. Financial assets measured at fair value through other comprehensive income	-	-	-	-	-	-	-	-	-	-	-	-
3 Financial asset held for sale	-	-	-	-	-	-	-	-	-	-	-	-
Total 31 12 2023	89,077	-	-	255,971	93,195	36,302	78,173	153,566	869,444	48	-	1,339
Total 31 12 2022	121,923	-	-	138,195	46,867	6,310	60,233	94,071	568,409	179	-	73



A.1.4 Financial assets, commitments to disburse funds and financial guarantees given: changes in overall value adjustments and total allocations

Reasons/Staging	Overall value adjustments											
	Assets included in Stage 1						Assets included in Stage 2					
	Loans to bank and Central banks	Financial assets measured at amortised cost	Financial assets measured at fair value through other comprehensive income	Financial assets held for sale and disposal groups	<i>Of which: specific write-downs</i>	<i>Of which: portfolio adjustments</i>	Loans to bank and Central banks	Financial assets measured at amortised cost	Financial assets measured at fair value through other comprehensive income	Financial assets held for sale and disposal groups	<i>Of which: specific write-downs</i>	<i>Of which: portfolio adjustments</i>
Overall value adjustments, opening balance	161	77,692	3,102	-	-	80,956	24	283,464	402	-	-	283,890
Increase in purchased or originated financial assets	-	15,437	-	-	-	15,436	-	12,538	-	-	-	12,538
Derecognition different from write-off	(2)	(6,047)	(972)	-	-	(7,020)	-	(12,219)	-	-	-	(12,219)
Net losses (recoveries) on impairment	53	(101,816)	(375)	-	-	(102,138)	-	100,519	(164)	-	-	100,354
Modification gains/losses	-	(5)	-	-	-	(5)	-	(86)	-	-	-	(86)
Change in evaluation methodology	-	-	-	-	-	-	-	-	-	-	-	-
Write-off not recognised directly in the income statement	-	-	-	-	-	-	-	-	-	-	-	-
Other changes	-	126,916	145	-	-	127,059	(24)	(13,075)	24	-	-	(13,075)
Overall value adjustments, closing balance	212	112,177	1,900	-	-	114,288	-	371,141	262	-	-	371,402
Recoveries from collections of financial assets subject to write-off	-	-	-	-	-	-	-	-	-	-	-	-
Write-off recognised through income statements	-	-	-	-	-	-	-	-	-	-	-	-



Reasons/Risk stage	Overall value adjustments											Provisions for credit risk relative to commitments to disburse funds and financial guarantees given					TOTAL
	Assets included in Stage 3							Purchased or originated credit impaired financial assets									
	Loans to bank and Central banks	Financial assets measured at amortised cost	Financial assets measured at fair value through other comprehensive income	Financial assets held for sale and disposal groups	Of which: specific write-downs	Of which: portfolio adjustments	Financial assets measured at amortised cost	Financial assets measured at fair value through other comprehensive income	Financial assets held for sale and disposal groups	Of which: specific write-downs	Of which: portfolio adjustments	Stage 1	Stage 2	Stage 3	Purchased or originated impaired commitments to disburse fund and financial guarantees given		
Overall value adjustments, opening balance	-	954,734	-	-	374,682	580,053	823	-	42	781	12,757	13,975	102,053	7,652	1,456,839		
Increase in purchased or originated financial assets	-	1,777	-	-	1,777	-	X	X	X	X	X	829	547	859	-	31,987	
Derecognition different from write-off	-	(298,666)	-	-	(143,534)	(155,132)	-	-	-	-	(4,737)	(750)	(6,200)	(132)	(329,725)		
Net losses (recoveries) on impairment	175	491,823	-	-	156,283	335,715	(27)	-	-	(27)	(742)	5,316	20,110	(115)	514,757		
Modification gains/losses	-	(325)	-	-	(73)	(252)	(92)	-	69	(161)	-	-	-	-	(508)		
Change in evaluation methodology	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-		
Write-off not recognised directly in the income statement	-	(51,508)	-	-	(24,268)	(27,240)	(5)	-	-	(5)	-	-	-	-	(51,513)		
Other changes	24	536,633	-	-	331,710	204,947	1,362	-	1,357	5	8,377	(2,867)	(3,473)	-	654,042		
Overall value adjustments, closing balance	199	1,634,468	-	-	696,577	938,091	2,061	-	1,468	593	16,484	16,221	113,349	7,405	2,275,879		
Recoveries from collections of financial assets subject to write-off	-	4,375	-	-	4,375	-	1,668	-	1,668	-	-	-	-	-	6,043		
Write-off recognised through income statements	-	(28,831)	-	-	(28,831)	-	-	-	-	-	-	-	-	-	(28,831)		

During 2023, total impairment provisions posted an overall increase, compared with 1 January 2023, of around EUR 819.0 million – of which EUR 653.1 mln related to the funds of the merged subsidiaries and reported under the item “other changes” – due almost entirely to value adjustments of financial assets carried at amortised cost, classified in stage 3 (EUR +679.7 mln). In particular, with reference to this accounting portfolio, the following elements contributed to this trend in the line:

- “Derecognition different from write-offs” a reduction in provisions for a total of EUR 316,9 mln, mainly attributable to the deconsolidation of the positions included in the “Mugello” transaction and certain single-name disposals;
- “Write-offs not recognised directly in the income statement” a reduction in provisions for non-performing loans for a total of EUR 51,5 mln. Note that the derecognitions not covered by the provision generated an impact of EUR 28,8 mln in the income statement;
- “Net losses (recoveries) on impairment”, a net increase in provisions of EUR 409.5 mln, of which EUR 491.8 mln referred to stage 3. The main factors that affected this latter performance include inter alia the other adjustments related to the disposal of non-performing loans carried out during the year, to management overlays and to the update of the IFRS 9 PD and LGD models in line with the evolution of the regulatory models which was based on the 2024 Model Change. In this regard, reference is made for further details to paragraph “2.3 Methods of measuring expected losses” of the Notes to the consolidated financial statements;
- “Other changes” a net increase in provisions of EUR 650.5 mln referring for EUR 649.8 mln to the funds of the subsidiaries merged by incorporation.



A.1.5 - Financial assets, commitments to disburse funds and financial guarantees given: transfers among the different stages of credit risk (gross and nominal values)

Portfolio/Staging	Gross value /nominal value					
	Transfers between Stage 1 and Stage 2		Transfers between Stage 2 and Stage 3		Transfers between Stage 1 and Stage 3	
	From Stage 1 to Stage 2	From Stage 2 to Stage 1	From Stage 2 to Stage 3	From Stage 3 to Stage 2	From Stage 1 to Stage 3	From Stage 3 to Stage 1
1. Financial assets measured at amortised cost	4,763,064	4,227,384	617,170	172,246	402,722	8,772
2. Financial assets measured at fair value through other comprehensive income	-	-	-	-	-	-
3. Financial asset held for sale	-	-	-	-	-	-
4. Commitments to disburse funds and financial guarantees given	968,495	669,201	70,876	21,043	51,838	6,239
Total 31 12 2023	5,731,559	4,896,585	688,046	193,289	454,560	15,011
Total 31 12 2022	4,353,513	3,705,122	406,287	126,064	259,809	63,266



A.1.6 - Balance sheet and off-balance sheet credit exposures to banks: net and gross values

Typ of exposure/value	Total gross exposure	Gross Exposure				Impairment (losses) and total provisions					Net exposure	Total Partial Write-off *
		Stage 1	Stage 2	Stage 3	Purchased or originated credit impaired financial assets	Total impairment (losses) and total provisions	Stage 1	Stage 2	Stage 3	Purchased or originated credit impaired financial assets		
A. Balance-sheet exposure		-	-	-	-	-	-	-	-	-	-	-
A.1 Demand	12,303,531	12,303,174	-	357	-	(411)	(212)	-	(199)	-	12,303,120	-
a) Non Performing	357	X	-	357	-	(199)	X	-	(199)	-	158	-
b) Performing	12,303,174	12,303,174	-	X	-	(212)	(212)	-	X	-	12,302,962	-
A.2 Others	4,824,012	4,627,802	14,225	819	-	(1,436)	(821)	(194)	(421)	-	4,822,576	-
a) Bad loans	-	X	-	-	-	-	X	-	-	-	-	-
- of which forborne	-	X	-	-	-	-	X	-	-	-	-	-
b) Unlikely to pay	819	X	-	819	-	(421)	X	-	(421)	-	398	-
- of which forborne	-	X	-	-	-	-	X	-	-	-	-	-
c) Past-due non-performing exposures	-	X	-	-	-	-	X	-	-	-	-	-
- of which forborne	-	X	-	-	-	-	X	-	-	-	-	-
d) Past-due performing exposures	13,059	2,446	10,613	X	-	(19)	-	(19)	X	-	13,040	-
- of which forborne	-	-	-	X	-	-	-	-	X	-	-	-
e) Other assets not impaired	4,810,134	4,625,356	3,612	X	-	(996)	(821)	(175)	X	-	4,809,138	-
- of which forborne	-	-	-	X	-	-	-	-	X	-	-	-
Total A	17,127,543	16,930,976	14,225	1,176	-	(1,847)	(1,033)	(194)	(620)	-	17,125,696	-
B. Off-balance-sheet exposure	-	-	-	-	-	-	-	-	-	-	-	-
a) Non-Performing	-	X	-	-	-	-	X	-	-	-	-	-
b) Performing	3,190,832	2,017,878	-	X	-	(352)	352	-	X	-	3,190,480	-
Total B	3,190,832	2,017,878	-	-	-	(352)	352	-	-	-	3,190,480	-
Total (A+B)	20,318,375	18,948,854	14,225	1,176	-	(2,199)	(681)	(194)	(620)	-	20,316,176	-

* Value to be presented for disclosure purposes

At the reporting date for these financial statements, the table does not include purchased or originated impaired financial assets.



A.1.7 – Balance sheet and off-balance sheet credit exposure to customers: net and gross values

31 12
2023

2023												
Typ of exposure/value	Gross Exposure					Impairment (losses) and total provisions						
	Total gross exposure	Stage 1	Stage 2	Stage 3	Purchased or originated credit impaired financial assets	Total impairment (losses) and total provisions	Stage 1	Stage 2	Stage 3	Purchased or originated credit impaired financial assets	Net exposure	Partial Write-off *
A. Balance-sheet exposure												
a) Bad loans	1,324,210	X	-	1,299,329	3,227	(897,285)	X	-	(876,549)	(1,955)	426,925	3,174
- of which forborne	249,698	X	-	249,657	2	(156,177)	X	-	(156,152)	(2)	93,521	2,116
b) Unlikely to pay	1,962,710	X	-	1,953,206	527	(737,597)	X	-	(730,977)	(105)	1,225,113	25,998
- of which forborne	938,397	X	-	932,109	527	(324,384)	X	-	(320,408)	(105)	614,013	12,360
c) Past-due non-performing exposuress	119,848	X	-	119,634	-	(26,551)	X	-	(26,521)	-	93,297	20
- of which forborne	10,274	X	-	10,245	-	(2,562)	X	-	(2,559)	-	7,712	-
d) Past-due performing exposures	523,975	87,067	396,534	X	-	(22,095)	(436)	(21,659)	X	-	501,880	274
- of which forborne	46,265	-	46,265	X	-	(2,078)	-	(2,078)	X	-	44,187	-
e) Other assets not impaired	90,670,240	77,509,491	9,581,827	X	1,051	(462,369)	(112,819)	(349,549)	X	(1)	90,207,871	3,393
- of which forborne	1,159,920	-	1,141,790	X	-	(65,787)	-	(65,787)	X	-	1,094,133	1,304
Total A	94,600,983	77,596,558	9,978,361	3,372,169	4,805	(2,145,897)	(113,255)	(371,208)	(1,634,047)	(2,061)	92,455,086	32,859
B. Off-balance-sheet exposure												
a) Non-Performing	565,412	X	-	556,716	8,696	(120,755)	X	-	(113,349)	(7,406)	444,657	-
b) Performing	42,466,215	35,738,235	1,273,097	X	29	(41,501)	(16,131)	(16,221)	X	-	42,424,714	-
Total B	43,031,627	35,738,235	1,273,097	556,716	8,725	(162,256)	(16,131)	(16,221)	(113,349)	(7,406)	42,869,371	-
Total (A+B)	137,632,610	113,334,793	11,251,458	3,928,885	13,530	(2,308,153)	(129,386)	(387,429)	(1,747,396)	(9,467)	135,324,457	32,859

* Value to be presented for disclosure purposes

Please see the Report on Operations for quantification of and reporting on capital ratios for hedging of lending transactions.

As at 31 December 2023, the Bank held purchased impaired loans for a nominal value of EUR 29.4 mln, of which EUR 16.4 mln acquired from the subsidiary MPSCS following the merger carried out in 2023. The loans were classified in the portfolio “Financial assets measured at amortised cost” at the purchase price of EUR 2.3 mln, appropriately adjusted in order to align the net book value to the initial recognition fair value.

For more detailed information on originated or purchased impaired financial assets, reference should be made to paragraph 3.3 “Purchased or originated impaired financial assets”, section 1 “Credit risk - Qualitative information” in these Notes to the consolidated financial statements.



A.1.8 - Balance-sheet exposures to banks: changes in gross non-performing exposures

31 12 2023

Source/Categories	Bad loans	Unlikely to pay	Non-performing Past due
A. Goss exposure, opening balance	-	-	-
- of which: transferred but not derecognised	-	-	-
B.Increases	-	1,185	-
B.1 Transfers from performing loans	-	1,185	-
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	-	-	-
C. Decreases	-	8	-
C.1 Transfers to performing loans	-	-	-
C.2 Write-off	-	-	-
C.3 Collections	-	8	-
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	-	1,177	-
- of which: transferred but not derecognised	-	-	-

At the reporting date, there are no impaired financial assets purchased during the financial year through either business combination transactions or other types of acquisitions.



A.1.8-bis – Balance-sheet credit exposures to banks: changes in gross forborne exposures broken down by credit quality

This table was not completed as the Bank did not hold forborne exposures neither in the current year nor in the previous year.

A.1.9 – Balance-sheet credit exposures to customers: changes in gross non-performing exposures

31 12 2023

Source/Categories	Bad loans	Unlikely to pay	Non-performing Past due
A. Gross exposure, opening balance	788,703	1,450,127	29,124
- of which: transferred but not derecognised	58,774	9,476	301
B. Increases	909,168	1,596,548	143,616
B.1 Transfers from performing loans	78,996	908,224	123,085
B.2 Transfers from purchased or originated credit impaired (POCI)	2,868	6	-
B.3 Transfers from other non-performing exposure	325,327	15,096	1,247
B.4 Modification gains/losses	-	1,032	7
B.5 Other increases	501,977	672,190	19,277
C. Decreases	373,659	1,083,964	52,895
C.1 transfers to performing loans	315	184,559	5,628
C.2 write-offs	40,158	46,200	513
C.3 collections	74,684	480,445	30,896
C.4 amounts realised upon disposal of positions	56,748	4,302	-
C.5 Losses from disposal	5	501	-
C.6 transfers to other categories of impaired exposure	1,827	323,986	15,857
C.7 Modification gains/losses	-	5,816	1
C.8 other decreases	199,922	38,155	-
D. Gross exposure, closing balance	1,324,212	1,962,711	119,845
- of which: transferred but not derecognised	-	-	-

The line “other increases” totalling EUR 1,193.4 mln is attributable for EUR 965.7 mln to the credit exposures of the subsidiaries merged by incorporation.

The line item Other decreases, amounting to a total of EUR 238.1 mln, is attributable for EUR 204.4 mln to non-performing exposures subject to disposal, of which EUR 168.9 mln is classified as bad loans and EUR 35.5 mln as unlikely to pay.

With reference to bad loans, 15% of total payments received are from judicial collections, 39% from out-of-court settlements, 23% from property leasing sales, and 23% from enforcement of consortium guarantees (prior to first demand); in addition, around EUR 48 mln relating to collections from disposal.

As part of the merger by incorporation of MPSCS and MPSLF, the Bank acquired impaired loans for a nominal value of EUR 16.4 mln at the price of a total of EUR 1.4 mln, fully written down in the financial statements.

*A.1.9-bis – Balance-sheet credit exposures to customers: changes in gross forborne exposure broken down by credit quality*

31 12 2023

Source/Categories	Non performing forborne exposures	Performing forborne exposures
A. Goss exposure, opening balance	830,292	1,534,859
<i>- of which: transferred but not derecognised</i>	21,077	6,763
B.Increases	818,174	1,049,533
B.1 Transfers from performing loans non forborne exposure	232,723	478,104
B.2 Transfers from performing forborne exposures	174,164	X
B.3 Transfers from Non-performing forborne exposures	X	110,811
B.4 Transfers from Non-performing loans non forborne exposure	32,396	15,254
B.5 Other increases	378,891	445,364
C. Decreases	450,098	1,378,206
C.1 Transfers to performing loans non forborne exposure	X	805,714
C.2 Transfers to performing forborne exposures	110,811	X
C.3 Transfers to non-performing forborne exposures	X	174,164
C.4 Write-offs	22,588	61
C.5 Collections	204,527	366,028
C.6 Amounts realised upon disposal of positions	20,078	-
C.7 Losses from disposal	501	-
C.8 Other decreases	91,593	32,239
D.Gross exposure, closing balance	1,198,368	1,206,186
<i>- of which: transferred but not derecognised</i>	-	-



A.1.10 - Non-performing balance-sheet credit exposures to banks: changes in overall value adjustments

31 12 2023

Source/Categories	Bad loans		Unlikely to pay		Non-performing Past due	
	Total	of which forborne	Total	of which forborne	Total	of which forborne
A. Opening balance of overall adjustments	-	-	-	-	-	-
- of which: transferred but not derecognised	-	-	-	-	-	-
B. Increases	-	-	620	-	-	-
B.1 Value adjustments from purchased or originated credit impaired	-	X	-	X	-	X
B.2 Other value adjustment	-	-	593	-	-	-
B.3 Loss from disposal	-	-	-	-	-	-
B.4 Transfers from other categories of non-performing exposures	-	-	-	-	-	-
B.5 Modification gains/losses	-	X	-	X	-	X
B.6 Other increases	-	-	27	-	-	-
C. Decreases	-	-	-	-	-	-
C.1 Write-backs from valuation	-	-	-	-	-	-
C.2 Write-backs from collection	-	-	-	-	-	-
C.3 Gains on disposal	-	-	-	-	-	-
C.4 Write-offs	-	-	-	-	-	-
C.5 Transfers to other categories of non-performing exposure	-	-	-	-	-	-
C.6 Modification gains/losses	-	X	-	X	-	X
C.7 Other decreases	-	-	-	-	-	-
D. Closing balance of overall adjustments	-	-	620	-	-	-
- of which: transferred but not derecognised	-	-	-	-	-	-

At the reporting date, there are no impaired financial assets purchased during the financial year through either business combination transactions or other types of acquisitions.



A.1.11 - Non-performing balance-sheet credit exposure to customers: changes in overall value adjustments

31 12 2023

Source/Categories	Bad loans		Unlikely to pay		Non-performing Past due	
	Total	of which forborne	Total	of which forborne	Total	of which forborne
A. Opening balance of overall adjustments	472,878	84,225	504,653	210,300	5,377	417
- of which: transferred but not derecognised	34,123	8,475	1,791	964	38	-
B. Increases	704,048	141,566	635,575	271,643	28,009	2,594
B.1 Value adjustments from purchased or originated credit impaired	1,776	X	1	X	-	X
B.2 Other value adjustment	248,671	62,389	375,817	141,175	22,626	1,857
B.3 Loss from disposal	5	-	501	501	-	-
B.4 Transfers from other categories of non-performing exposures	118,257	34,476	4,038	1,197	247	6
B.5 Modification gains/losses	-	X	55	X	-	X
B.6 Other increases	335,339	44,701	255,163	128,770	5,136	731
C. Decreases	279,637	69,614	402,629	157,560	6,834	451
C.1 Write-backs from valuation	50,998	9,741	67,621	28,835	1,699	27
C.2 Write-backs from collection	18,338	5,761	125,653	48,623	860	100
C.3 Profit from disposal	-	-	351	-	-	-
C.4 Write-offs	40,158	8,292	46,200	14,296	513	-
C.5 Transfers to other categories of non-performing exposure	1,144	958	117,856	34,405	3,541	315
C.6 Modification gains/losses	-	X	419	X	-	X
C.7 Other decreases	168,999	44,862	44,529	31,401	221	9
D. Closing balance of overall adjustments	897,289	156,177	737,599	324,383	26,552	2,560
- of which: transferred but not derecognised	-	-	-	-	-	-

The item “other increases” totalling EUR 595.6 mln is attributable for EUR 564.3 mln to the funds of the subsidiaries merged by incorporation.

The line item Other decreases, amounting to a total of EUR 213.7 mln, is attributable for EUR 204.4 mln to non-performing exposures subject to disposal, of which EUR 168.9 mln is classified as bad loans and EUR 35.5 mln as unlikely to pay.

As part of the merger by incorporation of MPSCS and MPSLF, the Bank acquired impaired loans for a nominal value of EUR 16.4 mln at the price of a total of EUR 1.4 mln, fully written down in the financial statements.



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 2023, pursuant to the criteria of the European Securities and Markets Authority (ESMA). The exposure is broken down by accounting categories. For debt securities and loans in the “Financial assets measured at amortised cost” portfolio, only the book value is reported.

COUNTRY	DEBT SECURITIES					LOANS	(in mln of EUR) CREDIT DERIVATIVES
	Financial assets measured at fair value through profit and loss		Financial assets measured at fair value through other comprehensive income		Financial assets measured at amortised cost	Financial assets measured at amortised cost	Financial assets held for trading
	Nominal	Fair value=book value	Nominal	Fair value=book value	Book value	Book value	Nominal
Argentina	0.5	-	-	-	-	-	-
Belgium	-	-	8.0	3.6	-	-	-
France	-	-	5.0	2.1	10.9	-	-
Italy	1,632.8	1,336.7	1,746.4	1,624.6	7,533.4	1,706.0	2,325.6
Mexico	0.1	0.1	15.0	11.8	-	-	-
Perù	-	-	2.0	1.6	-	-	-
Portugal	0.3	0.2	19.6	11.5	3.0	-	-
Romania	-	-	30.0	24.9	-	-	-
Spain	2.7	2.5	-	-	1,171.7	-	-
United States	-	-	45.2	37.2	-	-	-
South Africa	-	-	5.0	5.1	-	-	-
Other Countries	-	0.1	0.1	0.1	-	-	-
Total 31 12 2023	1,636.4	1,339.6	1,876.3	1,722.5	8,719.0	1,706.0	2,325.6
Total 31 12 2022	0.1	-	3,609.4	3,385.2	7,478.6	1,576.1	-

Details on the Bank's exposure is presented taking into consideration that, according to instructions from the European Securities and Markets Authority (ESMA), “sovereign debt” is defined as bonds issued by the central and local Governments and by government Entities, as well as loans disbursed to said entities. These financial instruments were measured according to the standards applicable to the category to which they belong.

As at 31 December 2023, the residual duration of the exposure to the most significant component of sovereign debt (Italian debt securities) was 7.02 years. The overall exposure to loans and debt securities amounted to EUR 13,487.1 mln, almost entirely in Italian debt, and is concentrated in the portfolio of financial assets measured at cost. Exposures to Italy are almost entirely classified in level 1 of the fair value hierarchy, less EUR 576.9 mln classified in level 2 and mainly attributable to government securities.

We provide below a breakdown 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 2023	31 12 2022
Book value		1,624.6	3,385.2
OCI reserve (after tax)		(39.8)	(100.3)
of which: hedging effect (after tax)		(20.1)	(11.7)
Credit derivatives - Italy		31 12 2023	31 12 2022
Purchase of protection			
Nominal		(79.5)	(75.0)
Positive fair value		-	-
Negative fair value		(5.5)	(3.6)
Sale of protection			
Nominal		2,405.2	75.0
Positive fair value		-	3.6
Negative fair value		(85.9)	-

**A.2 Classification of exposure by external and internal ratings****A.2.1 – Breakdown of financial assets, commitments to disburse funds and financial guarantees given by external rating class (gross values)**

31.12.2023

Exposures	External class rating						No rating	Total
	class 1	class 2	class 3	class 4	class 5	Class 6		
A. Financial assets measured at amortised cost	685.929	1.118.668	9.933.342	512.998	99.909	1.971	81.015.179	93.367.996
- Stage 1	685.929	1.108.055	9.932.187	441.237	99.909	-	67.744.945	80.012.262
- Stage 2	-	10.613	1.155	71.761	-	1.971	9.892.441	9.977.941
- Stage 3	-	-	-	-	-	-	3.372.988	3.372.988
-Purchased or originated impaired financial assets	-	-	-	-	-	-	4.805	4.805
B. Financial assets measured at fair value through other comprehensive income	45.744	13.241	2.047.251	110.985	9.522	-	-	2.226.743
- Stage 1	45.744	13.241	2.047.251	105.862	-	-	-	2.212.098
- Stage 2	-	-	-	5.123	9.522	-	-	14.645
- Stage 3	-	-	-	-	-	-	-	-
-Purchased or originated impaired financial assets	-	-	-	-	-	-	-	-
C. Financial assets held for sale	-	-	-	-	-	-	-	-
- Stage 1	-	-	-	-	-	-	-	-
- Stage 2	-	-	-	-	-	-	-	-
- Stage 3	-	-	-	-	-	-	-	-
-Purchased or originated impaired financial assets	-	-	-	-	-	-	-	-
Total (A+B+C)	731.673	1.131.909	11.980.593	623.983	109.431	1.971	81.015.179	95.594.739
D. Commitments to disburse funds and financial guarantees given	136.664	511.692	1.284.444	765.272	577.125	18.564	36.300.889	39.594.650
- Stage 1	136.664	511.692	1.282.219	765.272	575.830	18.564	34.465.871	37.756.112
- Stage 2	-	-	2.225	-	1.295	-	1.269.577	1.273.097
- Stage 3	-	-	-	-	-	-	556.716	556.716
-Purchased or originated impaired financial assets	-	-	-	-	-	-	8.725	8.725
Total (A+B+C+D)	868.337	1.643.601	13.265.037	1.389.255	686.556	20.535	117.316.068	135.189.389

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. Balance-sheet gross exposures correspond to the exposures in Table E.A.1.2, while off-balance-sheet exposures correspond to those shown in Table E.A.1.6 and E.A.1.7. 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.



A.2.2 – Breakdown of financial assets, commitments to disburse funds and financial guarantees given by internal rating class (gross values)

31.12.2023

Exposures	Internal class rating								Total
	High quality	Good quality	Fair quality	Mediocre quality	Poor quality	Default	Group administrative default	No Rating	
A. Financial assets measured at amortised cost	9.469.756	20.560.707	21.531.604	10.077.554	536.137	3.376.742	-	27.815.496	93.367.996
- Stage 1	9.411.045	20.216.819	18.944.921	4.437.167	2.200	-	-	27.000.110	80.012.262
- Stage 2	58.711	343.888	2.585.632	5.640.387	533.937	-	-	815.386	9.977.941
- Stage 3	-	-	-	-	-	3.372.988	-	-	3.372.988
-Purchased or originated impaired financial assets	-	-	1.051	-	-	3.754	-	-	4.805
B. Financial assets measured at fair value through other comprehensive income	-	4.304	6.135	-	-	-	-	2.216.304	2.226.743
- Stage 1	-	4.304	1	-	-	-	-	2.207.794	2.212.099
- Stage 2	-	-	6.134	-	-	-	-	8.510	14.644
- Stage 3	-	-	-	-	-	-	-	-	-
-Purchased or originated impaired financial assets	-	-	-	-	-	-	-	-	-
C. Financial assets held for sale	-	-	-	-	-	-	-	-	-
- Stage 1	-	-	-	-	-	-	-	-	-
- Stage 2	-	-	-	-	-	-	-	-	-
- Stage 3	-	-	-	-	-	-	-	-	-
-Purchased or originated impaired financial assets	-	-	-	-	-	-	-	-	-
Total (A+B+C)	9.469.756	20.565.011	21.537.739	10.077.554	536.137	3.376.742	-	30.031.800	95.594.739
D. Commitments to disburse funds and financial guarantees given	6.399.432	8.461.706	8.847.231	2.086.407	36.604	565.412	-	13.197.860	39.594.652
- Stage 1	6.375.084	8.338.829	8.457.799	1.391.671	11.026	-	-	13.181.704	37.756.113
- Stage 2	24.348	122.877	389.403	694.736	25.578	-	-	16.156	1.273.098
- Stage 3	-	-	-	-	-	556.716	-	-	556.716
-Purchased or originated impaired financial assets	-	-	29	-	-	8.696	-	-	8.725
Total (A+B+C+D)	15.869.188	29.026.717	30.384.970	12.163.961	572.741	3.942.154	-	43.229.660	135.189.391

High Quality customers (Master Scale categories AAA and A1) Good Quality customers (Master Scale categories A2, A3 and B1) Fair Quality customers (Master Scale categories B2, B3, C1 and C2) Mediocre Quality customers (Master Scale categories C3, D1, D2 and D3) Poor Quality customers (Master Scale categories E1, E2 and E3)

The table provides a breakdown of customers of the Bank by risk categories assigned on the basis of ratings arising from internal models. For this purpose, account is given only of exposures (borrowers) for which an internal rating is periodically recorded for models/legal entities/portfolios which have been subject to a validation process with the Supervisory Authorities without any cross-reference from official ratings to internal ratings, especially with regard to the following customer segments: “Banks”, “Non-banking financial institutions”, and “Governments and Public Administration”. Thus, based on this provision, exposures related to the latter segments, even if covered by official ratings, were reported as “unrated” in the internal rating models.



A.3 Breakdown of secured credit exposures by type of collateral

A.3.1 – Balance sheet and off-balance sheet secured credit exposure to banks

31 12 2023

	Amount of gross exposure	Amount of Net Exposure	Personal guarantees														Total collateral and personal guarantees
			Collaterals				Credit derivatives					Unsecured signature loans					
							Other derivatives				Public entities	Other financial entities					
Real estate mortgages	Real estate leasing	Securities	Other collaterals	CLN	Central counterparties	Banks	Other financial entities	Other entities		Banks	Other financial entities	Other entities					
1. Secured balance-sheet exposures:	1,039,563	1,039,549	861	-	1,027,848	-	-	-	-	-	-	-	-	-	-	24	1,028,733
1.1 totally secured	1,031,462	1,031,448	861	-	1,027,848	-	-	-	-	-	-	-	-	-	-	-	1,028,709
- of which non performing	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
1.2 partially secured	8,101	8,101	-	-	-	-	-	-	-	-	-	-	-	-	-	24	24
- of which non performing	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2. Secured off-balance sheet exposures:	56,971	56,971	-	-	11,654	17,457	-	-	-	-	-	-	-	-	-	-	29,111
2.1 totally secured	11,765	11,765	-	-	11,654	84	-	-	-	-	-	-	-	-	-	-	11,738
- of which non performing	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2.2 partially secured	45,206	45,206	-	-	-	17,373	-	-	-	-	-	-	-	-	-	-	17,373
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 reporting date is shown in the columns “Real guarantees” and “Personal guarantees”; if such information is not available, the contractual value is reported. Please note that both values may not be higher than the book value of secured exposures, in line with the 8th update to Bank of Italy Circular 262.



A.3.2 - Secured on- and off-balance-sheet exposures to banks

31.12.2023

	Amount of gross exposure	Amount of Net Exposure	Personal guarantees														Total collateral and personal guarantees
			Collaterals				Credit derivatives				Unsecured signature loans						
							Other derivatives				Public entities		Banks		Other financial entities		
			Real estate mortgages	Real estate leasing	Securities	Other collaterals	CLN	Central counterparties	Banks	Other Financial entities							
1. Secured balance-sheet exposures:	63,519,398	61,832,601	35,836,628	1,966,936	6,636,604	1,470,839	-	-	-	-	-	6,785,696	5,113	538,526	6,561,065	59,801,407	
1.1 totally secured	56,351,102	54,791,118	35,811,684	1,966,936	6,505,703	1,403,525	-	-	-	-	-	3,755,446	4,670	446,635	4,644,622	54,539,221	
- of which non performing	2,562,584	1,367,716	862,907	140,229	6,410	26,693	-	-	-	-	-	179,679	-	18,123	125,481	1,359,522	
1.2 partially secured	7,168,296	7,041,483	24,944	-	130,901	67,314	-	-	-	-	-	3,030,250	443	91,891	1,916,443	5,262,186	
- of which non performing	313,404	215,568	21	-	8,487	1,665	-	-	-	-	-	116,041	-	3,559	59,664	189,437	
2. Secured off-balance sheet exposures:	16,315,013	16,278,155	293,212	68,358	8,700,204	603,588	-	-	-	-	-	291,344	1,025	659,342	5,019,130	15,636,203	
2.1 totally secured	14,765,688	14,732,754	289,660	66,919	8,619,213	568,174	-	-	-	-	-	158,224	1,025	623,347	4,281,651	14,608,213	
- of which non performing	101,330	77,343	3,261	246	1,675	1,860	-	-	-	-	-	1,213	-	4,465	64,623	77,343	
2.2 partially secured	1,549,325	1,545,401	3,552	1,439	80,991	35,414	-	-	-	-	-	133,120	-	35,995	737,479	1,027,990	
of which non performing	75,098	72,333	-	-	161	476	-	-	-	-	-	928	-	240	62,289	64,094	

In addition to balance sheet exposures, the table shows the amount of off-balance sheet exposures to customers (including derivative contracts with customers) which are fully or partially secured.

As regards personal guarantees, the economic segments to which guarantors (unsecured loans) and sellers of protection (credit derivatives) are identified with reference to the classification criteria provided for by the Bank of Italy, Circular no. 140 of 11 February 1991 "Instructions for classifying customers". Exposures are classified as "totally 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 reporting date is shown in the columns "Collaterals" and "Personal guarantees"; if such information is not available, the contractual value is reported. Please note that both values may not be higher than the book value of secured exposures, in line with the 8th update to Bank of Italy Circular 262.

A.4 – Financial and non-financial assets obtained through enforcement of guarantees received

	Derecognised credit exposure	Gross Value	Total impairment (losses)	Book value	
					<i>of which: obtained during the year</i>
A. Property, plant and equipments	45,320	50,071	24,307	25,764	-
A.1. Used in the business	-	-	-	-	-
A.2. Held for investments	45,320	50,071	24,307	25,764	-
A.3. Inventories	-	-	-	-	-
B. Equity instruments and Debt securities	50,665	24,259	(2,823)	27,082	-
C. Other assets	-	-	-	-	-
D. Non-current assets and group of assets held for sale	-	-	-	-	-
D.1. Property, plant and equipment	-	-	-	-	-
D.2. Other assets	-	-	-	-	-
Total 31 12 2023	95,985	74,330	21,484	52,846	-
Total 31 12 2022	52,988	43,803	21,407	22,396	-

The “Financial and non-financial assets obtained through the enforcement of guarantees received” represented in the table above include properties acquired by the Bank following the merger of the subsidiaries MPSCS and MPSLF, resulting from the non-redemption of leased assets and the termination of impaired financial leases as well as real estate obtained as a result of the activation of “data in solutum” (a giving in payment) clauses.

As at 31 December 2023, the Bank held financial instruments with a book value of EUR 27.1 mln (EUR 22.4 mln as at 31 December 2022), classified in the accounting portfolio of “Financial assets mandatorily measured at fair value”, which mainly represent financial assets not previously granted by the debtor as collateral for pre-existing loans issued, but acquired as part of bilateral agreements with the same, as a result of which the Bank arranged for the derecognition of the related credit exposure.



B. Breakdown and concentration of credit exposures

B.1 - Breakdown of balance sheet and off-balance sheet credit exposures to customers by business segment

31 12 2023

Exposures/Counterparties	Public entities		Financial companies		Financial companies: of which insurance companies		Non-financial companies		Families	
	Net exposure	Total impairment (losses)	Net exposure	Total impairment (losses)	Net exposure	Total impairment (losses)	Net exposure	Total impairment (losses)	Net exposure	Total impairment (losses)
A. Balance sheet exposure										
A.1 Bad loans	331	939	3,880	22,022	-	-	304,242	670,536	118,472	203,789
- of which: forborne	-	-	137	145	-	-	61,617	103,975	31,767	52,057
A.2 Unlikely to pay	5,672	7,702	689	395	-	-	728,517	489,207	490,236	240,294
- of which: forborne	-	-	215	147	-	-	330,529	207,547	283,270	116,691
A.3 Past due non-performing exposures	967	753	118	72	-	-	22,573	8,754	69,639	16,972
- of which: forborne	-	-	-	-	-	-	3,421	1,602	4,291	960
A.4 Performing exposure	15,386,407	9,821	10,637,088	5,764	71,796	-	32,097,552	313,034	32,588,703	155,844
- of which: forborne	16,890	100	29,401	747	-	-	776,175	49,017	315,855	18,001
Total A	15,393,377	19,215	10,641,775	28,253	71,796	-	33,152,884	1,481,531	33,267,050	616,899
B. Off-Balance sheet exposure										
B.1 Non-performing exposure	16	-	999	430	-	-	431,326	118,906	12,316	1,420
B.2 Performing exposure	4,399,089	23	11,040,921	274	53,217	-	25,024,656	37,040	1,959,508	4,165
Total B	4,399,105	23	11,041,920	704	53,217	-	25,455,982	155,946	1,971,824	5,585
Total (A+B) 31 12 2023	19,792,482	19,238	21,683,695	28,957	125,013	-	58,608,866	1,637,477	35,238,874	622,484
Total (A+B) 31 12 2022	13,227,827	18,785	3,948,091	27,189	88,450	-	48,284,502	1,011,867	36,362,128	422,981



B.2 – Breakdown of on- and off-balance-sheet exposures to customers by geographic area

Exposures/Geographic areas	ITALY		OTHER EUROPEAN COUNTRIES		AMERICA		ASIA		REST OF THE WORLD	
	Net exposure	Total impairment (losses)	Net exposure	Total impairment (losses)	Net exposure	Total impairment (losses)	Net exposure	Total impairment (losses)	Net exposure	Total impairment (losses)
A. Balance sheet exposure										
A.1 Bad loans	426,102	894,627	666	1,085	139	1,558	18	16	-	-
A.2 Unlikely to pay	1,218,212	728,957	5,736	7,155	489	369	643	1,063	33	52
A.3 Past due non-performing exposures	91,671	25,914	1,528	593	1	2	-	-	97	42
A.4 Performing exposure	87,919,076	481,944	2,108,866	1,940	400,141	378	105,516	133	176,151	68
Total A	89,655,061	2,131,442	2,116,796	10,773	400,770	2,307	106,177	1,212	176,281	162
B. Off-Balance sheet exposure										
B.1 Non-performing exposure	443,691	120,755	3	-	-	-	963	-	-	-
B.2 Performing exposure	40,776,654	41,466	1,406,077	31	172,521	3	48,530	-	20,392	1
Total B	41,220,345	162,221	1,406,080	31	172,521	3	49,493	-	20,392	1
Total (A+B) 31 12 2023	130,875,406	2,293,663	3,522,876	10,804	573,291	2,310	155,670	1,212	196,673	163
Total (A+B) 31 12 2022	99,524,246	1,466,259	1,770,836	6,802	378,323	5,261	97,177	2,002	51,967	501



B.3 – Breakdown of balance sheet and off-balance-sheet credit exposures to banks by geographic area (book value)

Exposures/Geographic areas	ITALY		OTHER EUROPEAN COUNTRIES		AMERICA		ASIA		REST OF THE WORLD	
	Net exposure	Total impairment (losses)	Net exposure	Total impairment (losses)	Net exposure	Total impairment (losses)	Net exposure	Total impairment (losses)	Net exposure	Total impairment (losses)
A. Balance sheet exposure										
A.1 Bad loans	-	-	-	-	-	-	-	-	-	-
A.2 Unlikely to pay	-	-	556	620	-	-	-	-	-	-
A.3 Past due non-performing exposures	-	-	-	-	-	-	-	-	-	-
A.4 Performing exposure	15,667,231	544	1,185,911	410	69,485	36	74,365	228	128,148	9
Total A	15,667,231	544	1,186,467	1,030	69,485	36	74,365	228	128,148	9
B. Off-Balance sheet exposure										
B.1 Non-performing exposure	-	-	-	-	-	-	-	-	-	-
B.2 Performing exposure	1,167,417	57	1,126,626	136	219,595	24	519,978	36	152,826	99
Total B	1,167,417	57	1,126,626	136	219,595	24	519,978	36	152,826	99
Total (A+B) 31 12 2023	16,834,648	601	2,313,093	1,166	289,080	60	594,343	264	280,974	108
Total (A+B) 31 12 2022	31,340,392	1,345	2,001,659	1,009	274,720	167	680,507	666	183,158	194

B.4 Large exposures

Item/Amount	31 12 2023	31 12 2022
a) Book value	87,787,472	59,867,124
b) Weighted value	2,011,916	1,735,847
c) Number	8	7

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 own funds.

The increase over the year for the “Book value” is mainly due to the positive change in transactions with eligible central counterparties, which are exempt from the calculation of the weighted value, as provided for in CRR, art. 400 (1) letter j); the increase in the “Weighted Value” referred to 2023, compared to 2022, is substantially attributable to the increase in transactions with banks.



C. SECURITISATION TRANSACTIONS

Qualitative Information

For qualitative information, please refer to Part E of the Notes to the Consolidated Financial Statements.

We describe below the characteristics of the Bank's securitisation transactions originated in previous financial years and outstanding as at 31 December 2023, the securities of which have been partly placed on the market.

Synthetic securitisation transactions

In July 2021, the Bank completed a new synthetic securitisation called "Siena 2021 - RegCap-1", in addition to "Siena 2020 - FEI Transaction" and "Siena 2020-RegCap-1". With the merger by incorporation of MPS Capital Services Banca per le Imprese S.p.A., the Bank inherited the synthetic securitisation called "Siena 2021-Specialised Lending".

In 2023, the "Siena 2020 - FEI Transaction" and "Siena 2020-RegCap-1" transactions were closed early.

For further details, reference should be made to the Notes to the Consolidated Financial Statements - Part E - Section C "Securitisation transactions".

Own securitisations with derecognition of the underlying assets

Siena NPL 2018 Srl

In the course of 2017, on the basis of what is set forth in the Restructuring Plan and in line with the terms of the agreements entered into with Quaestio Capital Management SGR S.p.A., the Bank completed a transfer through securitisation of a portfolio of bad loans along with other Group companies.

The portfolio was sold on 20 December 2017 to the vehicle Siena NPL 2018 S.r.l., established for this purpose. The SPV financed the purchase of the portfolio through the issue of asset-backed securities with limited recourse of the Senior A1, Senior A2, Mezzanine and Junior class, centralised in dematerialized form at Monte Titoli S.p.A. and initially not listed on any regulated market in Italy and/or abroad.

On 9 January 2018, the transfer of 95% of the Mezzanine notes to Quaestio Capital SGR on behalf of Italian Recovery Fund (Fondo Atlante II) 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 illustrated below. Consequently, the securities issued by the SPV were the following:

- i Senior A notes for EUR 2,918 mln, rating A3/BBB+/BBB (Moody's/Scope Ratings/DBRS). The outstanding amount as at 31 December 2023 was around EUR 995 mln. The rating as at 31 December 2023 is Baa2/BBB+/BB high (Moody's/Scope Ratings/DBRS);
- ii Mezzanine B notes for EUR 848 mln, without rating and sold to the Italian Recovery Fund, for a portion of 95% of the issue. The outstanding amount as at 31 December 2023, also due to the capitalisation of the interest (payment-in-kind), was about EUR 892 mln;
- iii Junior for EUR 565 mln, without rating and transferred to the Italian Recovery Fund, for a 95% share of the issue.

The transfer of 95% of the Mezzanine and Junior securities resulted in the deconsolidation of the entire securitised portfolio in June 2018. The remaining 5% of the Mezzanine and Junior notes was retained for the purpose of compliance with the "retention rule". Lastly, in July 2018, the MEF granted, with a decree, the government guarantee (GACS) on the senior tranche of the securitisation. Obtainment of the GACS completed the entire securitisation process.



Norma SPV S.r.l.

On 1 July 2017, as part of a securitisation of non-performing loans, partly originated by banks outside the Group, the Bank completed the sale of a portfolio of 12 non-performing loans in the real estate and shipping sectors for an amount equal to, respectively, EUR 24.0 mln and EUR 145.3 mln.

To fund the acquisition of this portfolio, on 21 July 2017 the SPV 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 classes:

- *Real Estate*: Class B for a nominal amount of EUR 11.6 mln; Class C for a nominal amount of EUR 2.4 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.

During the first quarter of 2020, the Bank carried out the derecognition of the loans underlying the securitization; in fact, following the approval of the RBD Armatori SpA composition with creditors, there are no risks and benefits associated with the ownership of the loan.

As at 31 December 2023, the amortised nominal value of the classes subscribed by the Bank, also considering the share of the merged MPS Capital Services, is as follows:

- Real Estate: EUR 10.63 mln; Class C EUR 4.21 mln; Class D EUR 15.83 mln (the book value is EUR 0.5 mln only attributable to Class B)
- Shipping: Class B EUR 28.4 mln; Class C1 EUR 34.0 mln; Class C2 EUR 10.8 mln; Class D EUR 109.8 mln (the book value, after redemption of Class B, is immaterial).

The changes in the Class B notes of both transactions are mainly attributable to payments made, in the face value and interest account, for a total of EUR 78.3 mln, of which EUR 20.6 mln relating to Real Estate and EUR 57.7 mln to Shipping (the nominal values of the notes of the shipping transaction are denominated in USD, therefore also including the exchange rate component).

Own securitisations without derecognition of the underlying assets

Siena Mortgages 10-7 Srl

In the first half of 2023, the Bank completed the early closure of the securitisation Siena Mortgages 10-7, the last “own” securitisation without derecognition, with the consequent repurchase of the residual portfolio.



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						Guarantees issued						Lines of credit					
	Senior		Mezzanine		Junior		Senior		Mezzanine		Junior		Senior		Mezzanine		Junior	
	Book value	Impairment (losses)/ reversals	Book value	Impairment (losses)/ reversals	Book value	Impairment (losses)/ reversals	Net exposure	Impairment (losses)/ reversals	Net exposure	Impairment (losses)/ reversals	Net exposure	Impairment (losses)/ reversals	Net exposure	Impairment (losses)/ reversals	Net exposure	Impairment (losses)/ reversals	Net exposure	Impairment (losses)/ reversals
A. Fully derecognised	1,003,959	(316)	36,379	1,878	860	(3,688)	-	-	0	0	0	0	0	0	0	0	0	0
Bond	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Non-performing loans	1,003,959	(316)	36,379	1,878	585	(3,431)	-	-	-	-	-	-	-	-	-	-	-	-
Mortgages loans	-	-	-	-	2	-	-	-	-	-	-	-	-	-	-	-	-	-
Shipping loans	-	-	-	-	273	(257)	-	-	-	-	-	-	-	-	-	-	-	-
B. Partially derecognised	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
C. Not derecognised	657,319	-	-	-	6,913	-	-	-	-	-	-	-	-	-	-	-	-	-
SME Mortgages	307,752	-	-	-	6,913	-	-	-	-	-	-	-	-	-	-	-	-	-
SME and Corporate Mortgages	349,566	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Residential Mortgages	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total	1,661,278	(316)	36,379	1,878	7,773	(3,688)	-	-	-	-	-	-	-	-	-	-	-	-
of which: non-performing	1,003,959	(316)	36,379	1,878	860	(3,688)	-	-	-	-	-	-	-	-	-	-	-	-
of which: others	657,319	-	-	-	6,913	-	-	-	-	-	-	-	-	-	-	-	-	-

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.

The table above shows, for synthetic securitisations, the amount of risk retained in transactions not derecognised from the Financial Statements.



C.2 – Exposures arising from major ‘third-party’ securitisation transactions broken down by type of securitised asset and type of exposure

31 12 2023

Quality of underlying assets/Exposures	Balance sheet exposure						Guarantees issued			Lines of credit		
	Senior		Mezzanine		Junior		Senior	Mezzanine	Junior	Senior	Mezzanine	Junior
	Book value	Impairment (losses)/reversals	Book value	Impairment (losses)/reversals	Book value	Impairment (losses)/reversals	Net exposure	Impairment (losses)/reversals	Net exposure	Impairment (losses)/reversals	Net exposure	Impairment (losses)/reversals
Non performing loans	14,971	(6,676)	-	-	-	-	-	-	-	-	-	-
Commercial mortgages	13,383	(181)	12,327	(3,082)	-	-	-	-	-	-	-	-
Firs mortgages real estate loans	-	-	-	-	236	(222)	-	-	-	-	-	-
Shipping loans	-	-	-	-	2	-	-	-	-	-	-	-
Total	28,354	(6,857)	12,327	(3,082)	238	(222)	-	-	-	-	-	-

The table provides the exposures taken by the Bank for each third-party securitisation transaction as well as reporting the contractual type of assets sold. The column “Write-downs/write-backs” indicates the amount of any write-downs or write-backs during the year as well as depreciations and revaluations posted to the income statement or directly to equity reserves, in the case of securities in the portfolio “Financial assets measured at fair value through other comprehensive income”.

C.3 Special purpose securitisation vehicles

31 12 2023

Securitisation/vehicle company name	Registered office	Consolidation	Assets			Liabilities		
			Credits	Debt securities	Others	Senior	Mezzanine	Junior
Belvedere SPV	Via Vittorio Betteloni 2, Milano	NO	266,110	-	118,191	219,301	70,000	95,000
Deco 2019 - Vivaldi S.r.l.	Via Vittorio Betteloni 2, Milano	NO	222,230	-	-	122,000	81,000	19,230
Futura 2019	Via San Prospero 4, Milano	NO	55,016	-	43,343	53,359	37,000	8,000
Pietra Nera Uno S.r.l.	Via V.Alfieri, 1 Conegliano (TV)	NO	383,330	-	-	199,350	164,796	19,185
Norma Spv S.r.l.	Via V.Alfieri, 1 Conegliano (TV)	NO	78	-	-	10	-	68
Siena Npl 2018 S.r.l.	Via Piemonte, 38 Roma	NO	2,420,790	-	31,356	994,954	892,192	565,000
Total			3,347,554	-	192,889	1,588,972	1,244,988	706,484

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 securitisation vehicle

As at 31 December 2023, the Bank does not carry out servicer activities in its own securitisation transactions in which the assets sold have been derecognised in the financial statements pursuant to IFRS 9.



D. Information on structured entities not consolidated for accounting purposes (other than special purpose securitisation vehicles)

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

As at 31 December 2023, the Bank had no outstanding multi-originator transfers of loan portfolios to mutual funds with allocation of the relevant units to the transferor intermediaries that did not result in the derecognition of the transferred loans in accordance with IFRS 9.

At the same date, the transfer transactions that did not result in the derecognition from the financial statements of the underlying financial assets are represented by:

- securitisation transactions of credit exposures to customers, for which reference is made to the contents in section 4 “Liquidity risk” of these Notes to the financial statements;
- repurchase agreement payables on securities owned, mainly classified in the following portfolios: “Financial assets held for trading”, “Financial assets measured at fair value through other comprehensive income”, and “Financial assets measured at amortised cost”.

For repurchase agreements, the non-derecognition of the security, subject to spot transfer, derives from the fact that the Bank substantially retains all the risks and benefits associated with the security, having the obligation to repurchase it forward to a contractually established price. The securities transferred therefore continue to be represented in the accounting portfolios to which they belong; the consideration for the sale is recognised under “Financial liabilities measured at amortised cost: a) deposits from banks or b) deposits from customers”, depending on the type of counterparty. In this regard, it should be noted that the following tables do not show repurchase agreement payables carried out on securities not recognised in the financial statements, if their availability is a result of repurchase agreement receivables.

For securitisation transactions, described in the previous paragraph “C. Securitisation transactions” and in section 4 “Liquidity risk”, the non-derecognition is a result of the Bank’s subscription of tranches of junior securities or similar exposures, which entail the risk of first losses for the Bank and, likewise, the benefit associated with the return on the portfolio of transferred assets. In return for the transfer, the consideration received is recognised as a balancing entry to a liability due to the special purpose vehicle, net of any tranches of securities subscribed or any use of liquidity support in favour of the special purpose vehicle in order to make principal payments. The loan recognised in this way to the special purpose vehicle company will be reduced by the amounts collected by the originator, as “servicer”, and transferred to the same vehicle.



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: non-performing	Book value	of which: subject to securitization transactions	of which: subject to repurchase agreement
Financial assets held for trading	1,911,092	-	1,911,092	X	1,928,743	-	1,928,743
Financial assets mandatorily measured at fair value	-	-	-	-	-	-	-
1. Debt securities	-	-	-	-	-	-	-
2. Equity instruments	-	-	-	X	-	-	-
3. Loans	-	-	-	-	-	-	-
Financial assets designated at fair value	-	-	-	-	-	-	-
Financial assets measured at fair value through other comprehensive income	277,463	-	277,463	-	270,210	-	270,210
1. Debt securities	277,463	-	277,463	-	270,210	-	270,210
2. Equity instruments	-	-	-	X	-	-	-
3. Loans	-	-	-	-	-	-	-
Financial assets measured at amortised cost	1,508,648	-	1,508,648	-	1,301,342	-	1,301,342
1. Debt securities	1,508,648	-	1,508,648	-	1,301,342	-	1,301,342
2. Loans	-	-	-	-	-	-	-
Total as at 31 12 2023	3,697,203	-	3,697,203	-	3,500,295	-	3,500,295
Total as at 31 12 2022	1,270,322	872,975	397,347	32,599	538,837	52,778	486,059

Following the closure of its own securitisation without derecognition, which took place in the first half of 2023, the Bank does not hold, as at 31 December 2023, financial assets transferred in full that are subject to securitisations.

*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 - Transfers relating to financial liabilities with repayment exclusively based on assets sold and not fully derecognised: fair value

	Fully recognised	Partially recognised	Total	
			31 12 2023	31 12 2022
Financial assets held for trading	-	-	-	-
Financial assets mandatorily measured at fair value	-	-	-	10
1. Debt securities	-	-	-	-
2. Equity instruments	-	-	-	-
3. Loans	-	-	-	10
Financial assets designated at fair value	-	-	-	-
Financial assets measured at fair value through other comprehensive income	-	-	-	-
Financial assets measured at amortised cost	-	-	-	891,756
1. Debt securities	-	-	-	-
2. Loans	-	-	-	891,756
Total financial assets	-	-	-	891,766
Total financial associated liabilities	-	-	-	52,778
Net value 31 12 2023	-	-	-	X
Net value 31 12 2022	838,988	-	X	838,988

As at 31 December 2023, the Bank does not hold any position of this type. The assets recognised as at 31 December 2022 referred to own securitisations without derecognition Siena Morgages 10-7 and to self-securitisation transactions Siena Lease 2016-2 and Siena Mortgages 09-6 Series 1, subject to early closure in the first half of 2023, with the simultaneous repurchase by the Bank of the residual.

B. Financial assets sold and fully derecognised with assessment of continuing involvement*Qualitative Information**Quantitative Information*

As at 31 December 2023, as well as 31 December 2022, no position should be reported.

C. Financial assets sold and fully derecognised*Qualitative Information*

Following are multi-originator transfers, regarding loan portfolios, to a mutual investment fund with the attribution of the related units to the transferor intermediaries. The transactions outlined below led to the derecognition of the receivables sold pursuant to IFRS 9 ("derecognition"), as the Bank did not substantially retain the risks and rewards of the transferred assets and also did not retain any substantial control over these assets, which were instead assumed by the fund management company (hereinafter also SGR). In particular, the risks and benefits that the Group could achieve from the units held in exchange for the contribution of receivables, are not anchored in the *an*, nor the *quantum* or the time frame, to events affecting the assigned loans, given that the economic and financial trends related to individual receivables will not automatically and directly affect the returns of individual shareholders, which will instead depend on the general performance of the fund managed by the SGR.



Efesto Fund

In November 2020, jointly with the former subsidiary Capital Services, the Bank has finalised a multi-originator transfer of a portfolio of loans, classified as “unlikely to pay”; these are loans granted to industrial and service companies located in Italy and with a turnover of no less than EUR 20 mln in the last 3 years; these loans were sold to a Fund managed by Finanziaria Internazionale Investments S.G.R. S.p.A. The transaction has been settled by offsetting the credit on the Fund with the concurrent underwriting of freed-up units of the Fund itself.

As at the sale date, the portfolio consisted of loans payable to the Bank and other banking groups by 51 target companies (for the Bank 9 debtors) for a total gross exposure of EUR 432.5 mln (EUR 66.7 mln for the Bank) at a total price of EUR 197.2 mln, of which EUR 31.1 mln related to the Bank. At the sale date, the net book value of the loans for the Bank was EUR 36.9 mln.

The loans sold are fully derecognised as the assets of the Bank as at 31 December 2020 and the fund units are recognized for a total of EUR 28.3 mln, equal to a 15.8% investment in the fund.

During 2023, the Bank has acquired the shares held by the subsidiary MPSCS as a result of the merger transaction carried out during the year.

As at 31 December 2023, the Group held 5.0% of the Fund's units (7.6% as at 31 December 2022) for a book value of EUR 26.4 mln (EUR 20.8 mln as at 31 December 2022). In comparison with 31 December 2022, with regard to the overall investment of the MPS Group in the Fund, there was a decrease in the percentage interest mainly due to new contributions made to the Fund by shareholders other than the Bank.

Back2Bonis Fund

On 27 December 2019, the Bank, in agreement with the former subsidiary Capital Services, UBI Banca and Banco BPM finalised with AMCO and the Prelios Group a transaction named Cuvée which has provided for the creation of a multi-originator platform to manage UTP (Unlikely to pay) loans, from EUR 3 mln to 30 mln, issued to companies of the real estate sector that are in a restructuring phase or in financial difficulties.

In detail, the transaction consisted of the following steps:

- a) sale of all UTP loans by the banks to a securitisation company established pursuant to Italian Law no. 130/1999 (SPV 130), not a subsidiary of AMCO; with the disposal of the loans, each assignor bank acquired a credit from SPV 130 equal to the sale price;
- b) sale by the transferring banks to AMCO of the contractual relationships underlying the loans being sold to the SPV 130, which provide for residual commitments to disburse funds (case not applicable to the first phase for the MPS Group);
- c) contribution/sale to the Fund of the loan owed to the transferring banks by SPV 130 for the transfer described in point a). The transferring banks, following the contribution/sale, received units from the Fund for an amount equal to the sale price;
- d) subsequent issuance by the SPV 130 of un-tranched notes, fully subscribed by the Fund.

Within the scope of this complex transaction, AMCO took a role as Master and Special Servicer of the securitisation and the Prelios Group the role as Real Estate partner as well as manager of the Fund through Prelios SGR. The partnership enabled to combine financial management skills with specific skills in the real estate sector, creating synergies and greater possibilities for credit collection. Furthermore, the fund is expected to be able to disburse new financing to assist the companies in achieving a turnaround as well as to complete attractive real estate projects.

The first step of this transaction was completed in December 2019 when the positions of 46 debtors were transferred to the Fund (for the Bank, 4 debtors) for a total of about EUR 453 mln (of which EUR 56.7 mln for the Bank) at a price of about EUR 242 mln (EUR 21.5 mln for the Bank). The transferring banks received, as consideration for the sale and as a result of the steps described, the units of the Fund in which the Bank has an 8.9% holding.

The loans sold were fully derecognised as at 31 December 2019 and the fund units were recognised for a total of EUR 16.3 mln.

During 2023, the Bank has acquired the shares held by the subsidiary MPSCS as a result of the merger transaction carried out during the year.

As of 31 December 2023, the Bank held approximately 4.1% of the Fund's units (2.6% as at 31 December 2022) for a book value of EUR 34.3 mln (EUR 16.7 mln as at 31 December 2022).



In comparison with 31 December 2022, with regard to the overall investment of the MPS Group in the Fund, there was a decrease in the percentage interest mainly due to new contributions made to the Fund by shareholders other than the Bank.

Clessidra Fund

In September 2019, the Bank finalised a transfer of a multi-originator type of a portfolio of loans classified as “unlikely to pay”, issued to industrial and service companies located in Italy and with a turnover not under EUR 50 mln, to a Fund managed by Clessidra SGR S.p.A. The price settlement was determined by offsetting the loan owed by the Fund with the concurrent underwriting of freed-up units of the Fund.

The Fund was established for the purpose of improving the performance for the recovery of the loans acquired, thanks to the value increase of the target companies through:

- inputs of a managerial nature, made possible through the substantial addition of the Fund to the net financial positions of the companies and to any conversion of the acquired loans into equity instrument of the same companies;
- contribution of financial resources instrumental for a better industrial and financial turnaround process.

The Fund has issued four categories of units with different economic rights:

- units A reserved to the transferring banks;
- units B and C intended for two categories of institutional investors who contribute a “new finance”;
- units D reserved to the Fund management team.

At the date of sale, the portfolio consisted of receivables due to the Bank, the subsidiary MPS Capital Services S.p.A. and other banking groups from 13 target companies (for the MPS Group, 8 debtors) for a gross total exposure of approx. EUR 274 mln, of which EUR 91 mln referring to the Bank, at a total price of EUR 196 mln, of which EUR 69 mln referring to the Bank for a percentage interest in the fund of 35.2%. At the sale date, the net book value of the loans for the Bank was EUR 63 mln.

At the date of sale, the Bank, given the high exposure to credit risk with respect to the loans sold, had not carried out the accounting derecognition of the loans sold, thus not recording the UCITS units of the Fund.

As at 31 December 2021, as the conditions preventing derecognition of the underlying loans were overcome, the Bank proceeded to derecognise the receivables sold and to recognise the Fund's units for a book value of EUR 39.3 mln.

During 2023 the Bank has acquired the shares held by the subsidiary MPSCS as a result of the merger transaction carried out during the year.

As at 31 December 2023, the Bank held 39.5% of the Fund's units (35.0% as at 31 December 2022), with a book value of EUR 40.6 mln (EUR 39.8 mln as at 31 December 2022)

In the comparison with 31 December 2022 with regard to the overall investment of the MPS Group in the Fund, there were no changes in the shareholding.

Idea I and Idea II Fund

In 2016 and in 2017, the Bank carried out two multi-originator sales of loan portfolios (with full derecognition in the financial statements) to a mutual investment fund, with attribution of the related units to the transferor intermediaries. This is a project of Idea Capital Fund S.g.r., a management company that has created two multi-segment mutual investment funds called Idea CCR I Fund (2016) and Idea CCR II Fund (2017). These funds are closed-end asset funds reserved to qualified investors and their purpose is to maximise the recovery rate of acquired non-performing loans and of new loans granted through the business and financial restructuring of medium sized companies.

With regard to the Idea CRR I Fund, the Bank contributed 7 positions to the fund for a total of EUR 16.9 mln against a total of EUR 217 mln at a price of EUR 12.5 mln. At the date of sale, the Bank cancelled receivables for a net value of EUR 23.8 mln. The pool of transferring banks received, as sale consideration, units of Idea CRR II Fund, of which the Bank holds 5.7%.

On the other hand, with regard to the Idea CRR II Fund, the Bank contributed 5 positions to the fund for a total of EUR 42.1 mln against a total of EUR 328.9 mln at a price of EUR 27.1 mln. At the sale date, the Bank has derecognised loans for a net value of EUR 8.1 mln. The pool of transferring banks received, as sale consideration, units of Idea CRR II Fund, of which the Bank holds 11.7%.



During 2023 the Bank has acquired the shares held by the subsidiary MPSCS as a result of the merger transaction carried out during the year. As at 31 December 2023, the Bank held respectively 6.39% and 4.00% of the units of sub-fund A of Fund Idea CCR I and Fund Idea CCR II (5.5% and 5.2% as of 31 December 2022). The book value of these shares is respectively EUR 4.4 mln (EUR 3.8 mln as at 31 December 2022) and EUR 10.5 mln (EUR 11.8 mln as at 31 December 2022).

In comparison with 31 December 2022, with regard to the overall investment of the MPS Group in the Fondo Idea CCR II, there was a decrease in the percentage interest mainly due to new contributions made to the Fund by shareholders other than the Bank.

For more information on the criteria for determining the fair value of the units of the above mentioned funds, please refer to Part A of these Notes to the Financial Statements.

E.4 - Covered bond transactions

Characteristics of the Covered Bond Issuance Programmes

The characteristics of the covered bond issuance programmes are shown in the corresponding section of the consolidated financial statements.

Accounting treatment

The accounting treatment is shown in the corresponding section of the consolidated financial statements.

Risks and Control Measures

The risks and control measures are shown in the corresponding section of the consolidated financial statements.

Description of individual issuances

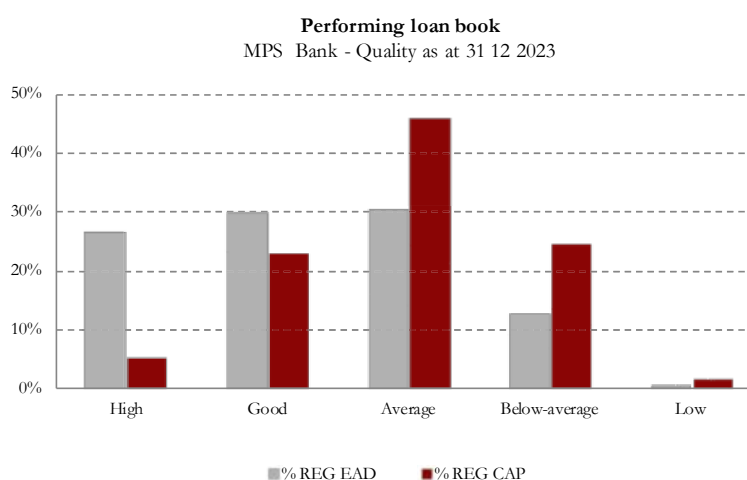
The description of individual issuances is provided in the corresponding section of the consolidated financial statements.



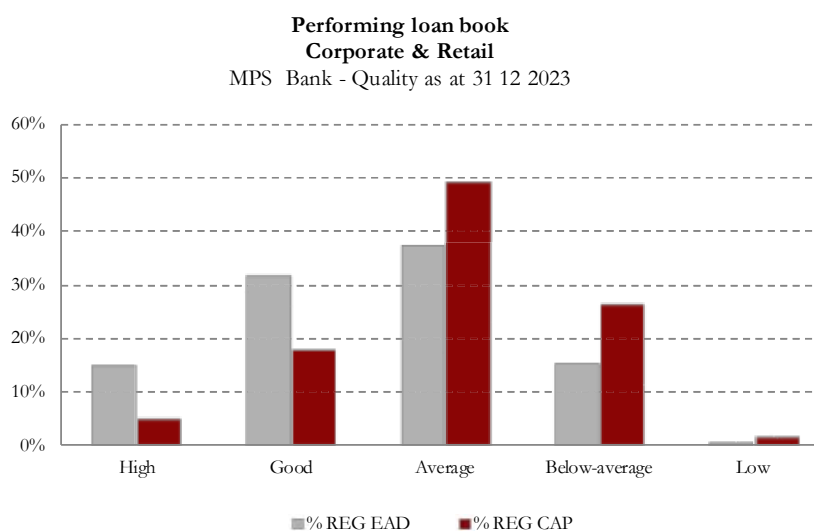
F. CREDIT RISK MEASUREMENT MODELS

This paragraph provides information of a quantitative nature related to the models for the measurement of credit risk, the qualitative characteristics of which have been described in Chapter 2 “Policies for credit risk management” of Section 2 “Prudential consolidation risk” of the Notes to the Consolidated Financial Statements.

The chart below provides a credit quality breakdown of the Bank portfolio as at 31 December 2023 by Exposure to Risk (REG EAD) and Regulatory Capital (REG CAP). It should be noted that about 56% (around 44% as at 31 December 2022) of risk exposure relates to high- and good-quality customers (positions in financial assets represented by debt securities, 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. It should be noted that the quality is measured in terms of probability of default assigned to customers through the AIRB models of the MPS Group. Non-AIRB counterparties are nevertheless subject to a credit standing assessment using official ratings where available or appropriate internally determined benchmark values.



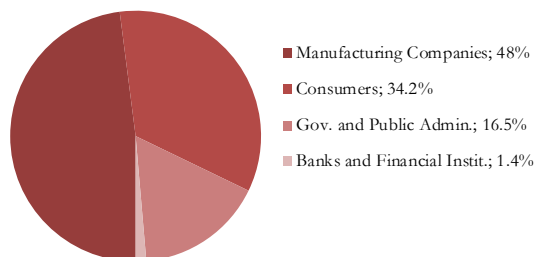
On the other hand, the following chart provides a breakdown of credit quality only for Corporate and Retail portfolios (which are largely validated by the Supervisory Authority for the use of internal PD and LGD models). As at 31 December 2023, high or good quality exposure accounted for approximately 46.6% of total exposure.



Analyses conducted at the end of 2023 show that Banca MPS risk exposure is mainly toward “Manufacturing Companies” (48% of total loans disbursed), “Households” (34.2%) and “Governments and Public Administration” (16.5%). The remaining portion refers to “Banks and Financial Institutions” (1.4%).

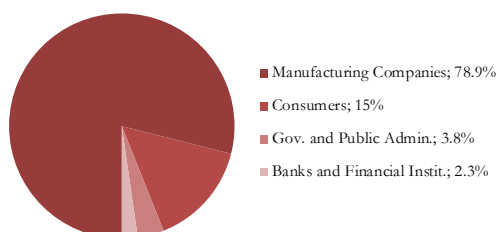


Risk Exposure
MPS Bank - 31 12 2023



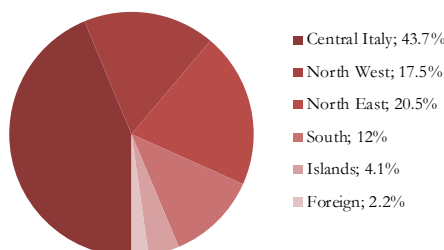
In terms of Regulatory Capital, the analysis shows that the “Manufacturing Companies” segment absorbs 78.9% of capital, while the “Households” segment absorbs 15%.

Regulatory Capital
MPS Bank - 31 12 2023



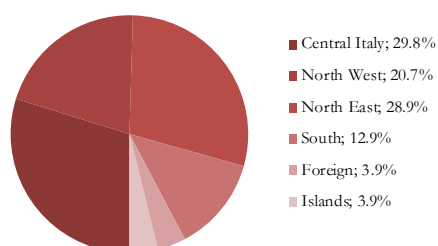
An analysis of the geographical breakdown of Banca MPS customers shows that exposure to risk is primarily concentrated in Italy's Central regions (43.7%), followed by the North West and North East (20.5% and 17.5% respectively), the South (12%), the Islands (4.1%) and foreign countries (2.2%).

Risk Exposure
MPS Bank - 31 12 2023



Also Regulatory Capital absorption is explained by the composition of loans, higher in Central Italy (29.8%) in North West Italy (28.9%) and North East Italy (20.7%). These are followed by the South (12.9%), the Islands (3.9%) and Abroad (3.9%).

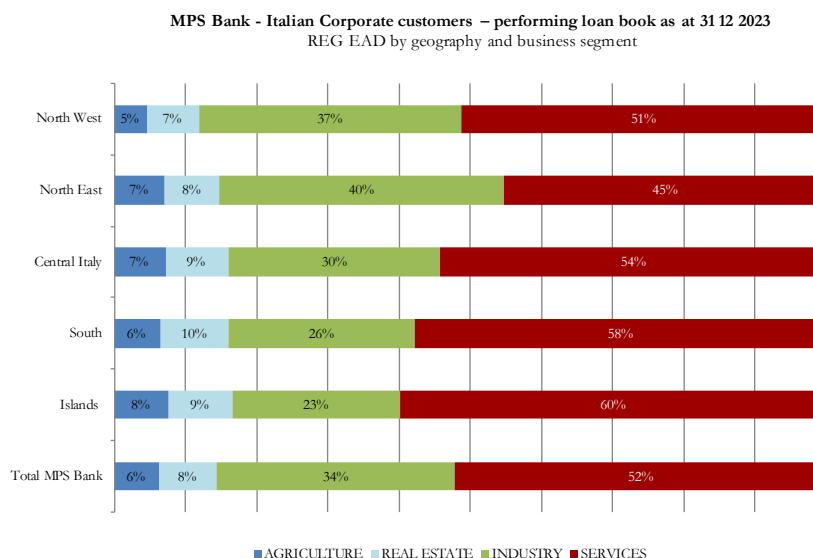
Regulatory Capital
MPS Bank - 31 12 2023



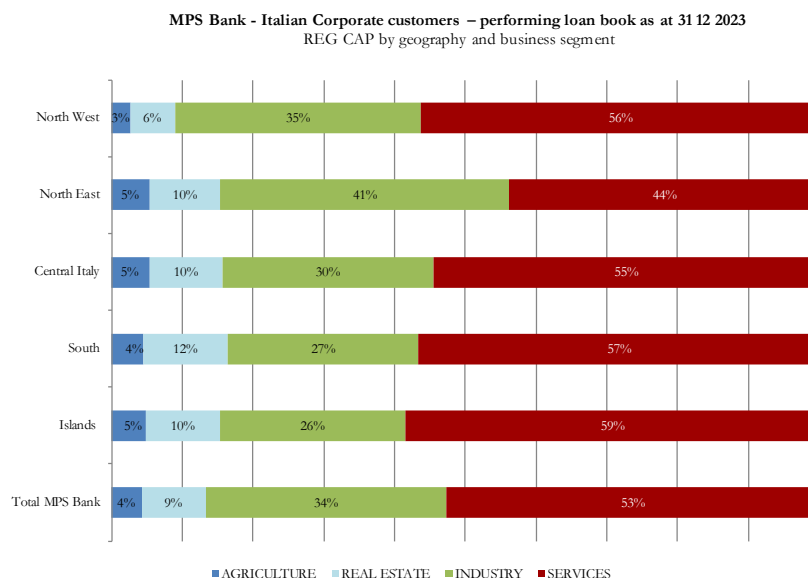


Lastly, the following graphs show, solely for Italian corporate customers, the percentage breakdown of Default Exposure by individual Geographic Area and Regulatory Capital absorption by Business Sector.

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, Services accounts for 52%, followed by Industry (34%), Building (8%) and Agriculture (6%).



Also as regards Regulatory Capital (CAP), the greater concentration relates to the Services sector in all Geographic Areas.





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 Bank's Regulatory Trading Book of the Bank, refer to Part E in the Notes to the Consolidated Financial Statements.

Due to the centralisation in the Parent Company of the position inherent the Group's Regulatory Trading Book, the Bank's risk analyses correspond to those illustrated in Part E of the Notes to the Consolidated Financial Statements, to which reference should be made.

Qualitative Information

Qualitative information regarding the measurement of the interest rate and price risk of the Regulatory Trading Book are shown in Part E of the Notes to the Consolidated Financial Statements.

Quantitative Information

1. Regulatory trading book: breakdown of balance sheet financial assets/liabilities and financial derivatives by residual life (repricing date).

This table was not prepared since an analysis of the Regulatory Trading Book's sensitivity to interest rate risk and price risk is produced based on internal models.

2. Regulatory trading book: breakdown of exposures in equity instruments and stock indices by major countries of the listing market.

This table was not prepared since an analysis of the Regulatory Trading Book's sensitivity to interest rate risk and price risk is produced based on internal models.

3. Regulatory trading book: internal models and other sensitivity analysis methods

Each business unit within the Banks operates independently on the basis of the objectives and powers it has been assigned. The positions are managed by special desks of Chief financial Office Structure and Chief Commercial Officer Large Corporate & Investment Banking Structure, provided with specific operational limits. Each desk adopts an integrated risk management approach (covering more than rate risk, when allowed) in order to benefit from the natural hedge resulting from simultaneously holding positions on risk factors that are not perfectly correlated.

All positions related to the Trading Book are classified as FVTPL and post the changes in Market Value directly in the income statement.

Due to the centralisation in the Parent Company of the position inherent the Group's Regulatory Trading Book, the Bank's risk analyses correspond to those illustrated in Part E of the Notes to the Consolidated Financial Statements, to which reference should be made.



2.2. Interest rate and price risk - banking book

Qualitative Information

The qualitative information on the measurement of the interest rate and price risk of the Banking Book is provided in Part E of the Notes to the consolidated financial statements, to which reference is also made for information on the risk management processes and measurement and control methods.

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 method

2.1 Interest rate risk

The amount of economic value at risk due to a +100 bps parallel shift of the rate curve stood at EUR -157.87 mln for the Bank at year end (vs. EUR +74.98 mln for a shift of -100 bps).

2.2 Price risk

We provide below a scenario analysis which includes all directional positions assumed by the Parent Company in equity securities and UCITS, measured at fair value (e.g. securities classified as "Financial assets measured at fair value through other comprehensive income" and as "Financial assets mandatorily measured at fair value"):

■ MPS Bank: Banking Book

EUR/mln

Risk Family	Scenario	Effect on Net Banking Income and Economic Result	Effect on Net capital	Overall Effect
Equity	+1% Equity Prices (prices, indices)	1.84	2.27	4.11
Equity	+1% Equity Prices (prices, indices)	(1.84)	(2.27)	(4.11)
Equity	+1 point Equity Volatility	0	0	0

The equity investment in the Bank of Italy represents approximately 82% of the effect on the Shareholders' Equity relating to the scenario analysis described above.

The data shown in the table coincide with that illustrated in Part E of the Notes to the consolidated financial statements as a result of the centralisation in the Parent Company of the exposures in equities and UCITS measured at fair value.



2.3. Foreign exchange risk

Qualitative Information

Qualitative information, including the hedging of exchange rate risk, is shown in Part E of the Notes to the Consolidated Financial Statements.

B. Hedging of exchange rate risk

Quantitative Information

1. Breakdown by currency of assets, liabilities and derivatives

31 12 2023

Items	Currencies					
	US dollar	Pound sterling	Yen	Canadian Dollar	Swiss Franc	Other currencies
A. Financial assets	1,162,274	13,162	7,652	4,471	9,657	42,054
A.1 Debt securities	551,470	758	-	-	-	-
A.2 Equity securities	67,193	4,644	886	42	953	5,544
A.3 Loans to banks	136,102	2,709	4,998	3,090	2,129	29,812
A.4 Loans to customers	407,509	5,051	1,768	1,339	6,575	6,698
A.5 Other financial assets	-	-	-	-	-	-
B. Other assets	92,084	1,384	153	220	1,373	5,285
C. Financial liabilities	770,023	12,195	23,101	3,096	2,426	17,208
C.1 Deposits from banks	107,845	1,875	3	1,163	640	590
C.2 Customer accounts	662,178	10,320	23,098	1,933	1,786	16,618
C.3 Debt securities	-	-	-	-	-	-
C.4 Other financial liabilities	-	-	-	-	-	-
D. Other liabilities	53,424	623	101	1,849	68	10,922
E. Financial derivatives						
- Options						
+ Long positions	56,299	6,307	3	-	-	-
+ Short positions	87,944	-	10,372	-	-	58,328
- Other						
+ Long positions	1,543,239	42,505	34,521	3,158	4,553	100,670
+ Short positions	1,917,031	43,849	8,925	2,008	11,224	33,334
Total assets	2,853,896	63,358	42,329	7,849	15,583	148,009
Total liabilities	2,828,422	56,667	42,499	6,953	13,718	119,792
Difference (+/-)	25,474	6,691	(170)	896	1,865	28,217



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 operation margin and on net profit (loss) for the year was estimated taking account of positions classified as “Financial assets held for trading” and “Financial assets mandatorily measured at fair value”; market value changes are recognised directly in the income statement. Instead, the effect on equity is estimated with reference to all positions classified as “Financial assets measured at fair value through other comprehensive income” and related fair value hedges (FVH). The total effect is the result of the algebraic sum of the two components. Below is a summary of the scenario analyses.

■ MPS Bank: Banking Book

EUR/mln

Risk Family	Scenario	Effect on Net Banking Income and Economic Result	Effect on Net capital	Overall Effect
Forex	+1% FX against EUR	0.38	(0.20)	0.18
Forex	-1% FX against EUR	(0.29)	0.20	(0.09)
Forex	+1 point Forex Volatility	0.25	0.00	0.25

The figures shown in the table correspond to those shown in Part E of the Notes of Consolidated Financial Statement due to the centralisation in the Parent company of exchange rate risk exposures related to financial assets held for trading and to the banking book assets measured at fair value indicated above.



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 2023				Total 31 12 2022			
	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 agreements	Contracts not subject to Master netting agreements	
1. Debt securities and interest rate	-	221,288,041	4,548,336	-	-	11,498,468	3,489,335	-
a) Options	-	6,114,878	1,284,219	-	-	4,267,822	1,261,596	-
b) Swaps	-	214,988,637	3,076,729	-	-	7,230,646	2,227,739	-
c) Forward	-	-	187,388	-	-	-	-	-
d) Futures	-	184,526	-	-	-	-	-	-
e) Other	-	-	-	-	-	-	-	-
2. Equity securities and stock indices	-	7,025,975	16,093	136,737	-	146,967	4,267	-
a) Options	-	4,504,097	16,093	122,954	-	146,967	4,267	-
b) Swaps	-	2,271,760	-	-	-	-	-	-
c) Forward	-	-	-	-	-	-	-	-
d) Futures	-	250,118	-	13,783	-	-	-	-
e) Other	-	-	-	-	-	-	-	-
3. Exchange rates and gold	-	120,930	1,542,058	-	-	1,517,192	2,678,662	-
a) Options	-	44,500	509,261	-	-	647,434	647,434	-
b) Swaps	-	-	-	-	-	-	-	-
c) Forward	-	76,430	1,032,797	-	-	869,758	2,031,228	-
d) Futures	-	-	-	-	-	-	-	-
e) Other	-	-	-	-	-	-	-	-
4. Commodities	-	87,983	183,004	-	-	457,920	426,081	-
5.Other underlying	-	-	-	-	-	-	-	-
Total	-	228,522,929	6,289,491	136,737	-	13,620,547	6,598,345	-



A.2 Financial derivatives for trading: gross positive and negative fair value - breakdown by products

Underlying asset/Type of derivative	Total 31 12 2023				Total 31 12 2022			
	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 agreements	Contracts not subject to Master netting agreements	
1. Positive Fair value	-	-	-	-	-	-	-	-
a) Options	-	251,836	9,142	3,255	-	112,258	10,641	-
b) Interest rate swap	-	8,614,066	24,306	-	-	375,688	19,669	-
c) Cross currency swap	-	-	-	-	-	-	-	-
d) Equity swap	-	39,507	-	-	-	-	-	-
e) Forward	-	156	10,104	-	-	12,617	36,944	-
f) Futures	-	218	-	-	-	-	-	-
g) Other	-	2,099	25,839	-	-	64,772	48,728	-
Total	-	8,907,882	69,391	3,255	-	565,335	115,982	-
2. Negative fair value	-	-	-	-	-	-	-	-
a) Options	-	181,922	51,859	2,848	-	24,392	94,293	-
b) Interest rate swap	-	7,418,405	98,441	-	-	224,567	104,344	-
c) Cross currency swap	-	-	-	-	-	-	-	-
d) Equity swap	-	19,013	-	-	-	-	-	-
e) Forward	-	1,296	13,927	-	-	16,996	29,516	-
f) Futures	-	135	-	-	-	-	-	-
g) Other	-	3,410	24,579	-	-	55,174	57,091	-
Total	-	7,624,181	188,806	2,848	-	321,129	285,244	-



A.3 Financial OTC derivatives for trading: notional amounts, gross positive and negative fair value by counterparties

31 12 2023

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	134,167	329,491	4,084,676
- positive fair value	X	-	933	24,066
- negative fair value	X	11,560	7,102	132,076
2) Equity securities and stock indices				
- notional value	X	-	14,330	1,763
- positive fair value	X	-	3,343	3
- negative fair value	X	-	-	-
3) Exchange rates and gold				
- notional value	X	170,714	58,271	1,313,074
- positive fair value	X	1,126	1,275	12,806
- negative fair value	X	1,857	-	11,632
4) Commodities				
- notional value	X	846	-	182,159
- positive fair value	X	-	-	25,839
- negative fair value	X	-	-	24,579
5) Other underlying				
Contracts subject to master netting agreements				
1) Debt securities and interest rates				
- notional value	-	64,567,541	154,772,192	1,948,309
- positive fair value	-	2,189,299	6,561,861	60,458
- negative fair value	-	1,924,874	5,330,711	190,415
2) Equity securities and stock indices				
- notional value	-	878,580	6,147,395	-
- positive fair value	-	36,715	56,939	-
- negative fair value	-	21,054	152,072	-
3) Exchange rates and gold				
- notional value	-	25,912	44,891	50,127
- positive fair value	-	21	9	263
- negative fair value	-	417	877	216
4) Commodities				
- notional value	-	-	74,695	13,287
- positive fair value	-	-	218	2,099
- negative fair value	-	-	135	3,410
5) Other underlying				

*A.4 Residual life of financial OTC derivatives for trading: notional amounts*

Underlying asset/residual life	Up to 1 year	1 to 5 years	Over 5 years	Total
A.1 Financial derivatives on debt securities and interest rates	67,380,836	75,507,007	82,948,534	225,836,377
A.2 Financial derivatives on equity securities and stock indices	4,813,889	2,185,544	42,635	7,042,068
A.3 Financial derivatives on exchange rates and gold	1,561,528	101,460	-	1,662,988
A.4 Financial derivatives on other underlying assets	213,364	57,623	-	270,987
A.5 Other financial derivatives	-	-	-	-
Total 31 12 2023	73,969,617	77,851,634	82,991,169	234,812,420
Total 31 12 2022	7,747,612	8,996,422	3,474,858	20,218,892

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	136,539	50,200
b) Credit spread products	-	-
c) Total rate of return swap	-	-
d) Others	-	-
Total 31 12 2023	136,539	50,200
Total 31 12 2022	75,000	-
2. Sales of protection	-	-
a) Credit default products	2,405,174	13,700
b) Credit spread products	-	-
c) Total rate of return swap	-	-
d) Others	-	-
Total 31 12 2023	2,405,174	13,700
Total 31 12 2022	75,000	-



B.2. Credit derivatives for trading: gross positive and negative fair value - breakdown by products

Portfolios/Types of derivatives	Total 31 12 2023	Total 31 12 2022
A. Positive fair value	-	-
a) Credit default products	777	3,597
b) Credit spread products	-	-
c) Total rate of return swap	-	-
d) Other	-	-
Total	777	3,597
B. Negative fair value	-	-
a) Credit default products	92,797	3,597
b) Credit spread products	-	-
c) Total rate of return swap	-	-
d) Other	-	-
Total	92,797	3,597

B.3. OTC credit derivatives for trading: notional amounts, gross fair value (positive and negative) by counterparties

31 12 2023

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	-	49,774	136,965	-
- positive fair value	-	-	-	-
- negative fair value	-	555	6,290	-
2) Sales of protection				
- notional value	-	-	2,418,874	-
- positive fair value	-	-	777	-
- negative fair value	-	-	85,952	-

*B.4 Residual life of OTC credit derivatives for trading: notional amounts*

Underlying asset/residual life	Up to 1 year	1 to 5 years	Over 5 years	Total
1. Sales of protection	78,280	1,197,558	1,143,036	2,418,874
2. Purchase of protection	18,100	93,639	75,000	186,739
Total 31 12 2023	96,380	1,291,197	1,218,036	2,605,613
Total 31 12 2022	-	-	150,000	150,000

B.5 Credit derivatives related to the fair value option: annual changes

This table was not drawn up as the Bank does not apply the accounting rules on hedging pursuant to IFRS 9.

3.2 Hedges

Qualitative Information

The Bank, in applying IFRS 9, has exercised the option provided by the standard to continue to fully apply IAS 39 for all types of hedging (micro and macro). Therefore the provisions of IFRS 9 in terms of hedging do not apply.

A. Fair value hedging

The purpose of interest rate risk hedging is to protect the banking book from changes in the fair value of deposits and loans caused by movements in the interest rate curve or to reduce the variability of cash flows linked to a particular asset/liability.

At Bank level, the risk predominantly hedged is the interest rate risk with fair value hedges, for a total of approximately EUR 20.8 bn in nominal amount of hedging derivatives.

The Bank uses the following hedges to manage interest rate risk:

- *fair value micro hedges*: hedging of trading assets (loans/mortgage loans), securities portfolio and bonds;
- *fair value macro hedges*: hedging of trading assets (loans/mortgage loans) and corporate funding (time deposits).

The fair value hedges at Bank level regard both micro hedges of assets and liabilities, identified specifically and represented by government bonds in the Banking Book and bonds issued by the Parent Company, as well as macro hedges (macro hedge - version with bottom layer approach) of retail fixed-rate deposits.

The derivatives used for these purposes are mainly interest rate swaps (IRS) and options on rates realized with third-party counterparties or with other Group companies.

Derivatives are not listed in regulated markets, but are traded within the scope of OTC circuits. OTC agreements also include those brokered through Clearing Houses.

B. Cash-flow hedging

Hedging activities carried out by the Bank aim at covering exposure to fluctuations in future cash flows, attributable to changes in the interest rate curve, associated with a specific asset, as cash receipt of future floating interests on asset securities.

Hedging derivatives for cash flow hedging transactions amounted to about EUR 144 mln in nominal value.

The Bank adopts only specific hedges (micro cash flow hedges) of floating interest loans.

C. Hedging of foreign investments

The Bank does not have any such hedging in place.



D. Hedging instruments

The main sources of ineffectiveness of the model adopted by the Group for checking a hedging relationship are ascribable to the following aspects:

- mismatch between notion amount of the derivatives and the hedge items recognised at the time of initial designation or subsequently generated, as in the case of partial repayments of loans or repurchase of bonds;
- inclusion in the effectiveness test of the value of the variable portion of the hedging derivative, in the hypothesis of “fair value hedge” relationship.

The ineffectiveness of the hedging is promptly recognised for:

- measuring the effect in the income statements;
- evaluate the possibility of continuing to apply the hedge accounting rules.

The Bank doesn't apply dynamic hedges rules, as defined by IFRS 7, paragraph 23C.

E. Hedged items

At the Bank level, the main types of hedged items are:

- debt securities under assets;
- debt securities issued;
- fixed-rate commercial loans;
- optional component implicit in the floating-rate mortgage loans;
- fixed-rate commercial funding.

E.1 Debt securities under assets

Hedging relationships of these assets fall mainly in the fair value micro hedge category; derivatives used for this purpose are mainly IRS and the hedged risk is the interest rate risk.

The Dollar Offset Method is used to verify the efficacy of the hedge. This method is based on the relationship between the cumulated changes (from the beginning of the hedging) in the fair value of the hedging instrument, attributable to the hedged risk, and the past changes in the fair value of the hedged item.

The Bank currently has active micro cash flow hedging on floating interests securities asset, mainly using IRS as hedging instruments.

The effectiveness assessment method involves prospective and retrospective testing using the methodology of the hypothetical derivative, i.e. comparison of the fair value of the hedging derivative against the fair value of the hypothetical derivative having as a fixed part the same flows as the hedging derivatives and as a variable part the variable flows of the hedged instrument weighted for hedging percentages.

E.2 Debt securities issued

These are securities covered by hedges in the fair value micro hedge category; derivatives used as hedging instruments are primarily IRS. The hedged risk is the interest rate risk.

The Dollar Offset Method is used to verify the efficacy of the hedge. This method is based on the relationship between the cumulated changes (from the beginning of the hedging) in the fair value of the hedging instrument, attributable to the hedged risk, and the past changes in the fair value of the hedged item.

E.3 Fixed-rate commercial loans

In these cases, the hedging relationships in place are of a macro fair value hedge type and the derivatives used as hedging instruments are primarily IRS. The hedged risk is the interest rate risk.

The hedged loan portfolio is open-ended, i.e. it is dynamically made up by fixed interest loans managed, at an aggregated level, through the hedging derivatives entered into over time

The effectiveness of the macro hedging on fixed-rate loans is verified through specific forward- and backward-looking tests aimed at demonstrating that the hedged portfolio contains an amount of assets for which the



sensitivity profile and the changes in the fair value for the interest rate risk can be said to match those of the hedging derivatives. It should be noted that for the purpose of the forward- and backward-looking tests, the hedged portfolio takes into account the prepayment estimates, determined on the basis of the model used from time to time to manage interest rate risk.

E.4 Optional component implicit in the floating-rate mortgage loans

The optional components implicit in mortgage loans with floating interest rate are hedged with a fair value macro hedge using, as hedging instruments, cap/floor derivatives.

The effectiveness of the hedge is verified through the capacity test.

E.5 Fixed-rate commercial funding

Fixed-rate commercial funding is subject to hedging relationships in the fair value macro hedge category, mainly through the use of hedging instruments such as IRS derivatives. The hedged risk is the interest rate risk.

The effectiveness of the macro hedges on the commercial funding with fixed interest rate is verified using the Dollar Offset Method. This method is based on the relationship between the cumulated changes (from the beginning of the hedging) in the fair value of the hedging instrument, attributable to the hedged risk, and the past changes in the fair value of the hedged item. The effectiveness is verified through a capacity test that compares the amount of the hedged items and the amount of the hedging instrument.

Other information

Paragraph 24H of IFRS 7, introduced by Regulation no. 34 of 15 January 2020, requires that specific disclosures is provided on the uncertainties deriving from the reform of reference indices for determining interest rates on hedging relationship and the notion value of hedging instruments potentially impacted by the reform of benchmark rates. The table containing details, by nominal amounts, of the hedging according to the reference index of the interest rates, before offsetting made in accordance with IAS 32.

Interest rate	<u>ASSETS</u>			<u>LIABILITIES</u>		Total
	Nominal Hedging			Nominal Hedging		
	Micro-FVH	Macro-FVH	Micro-CFH	Micro-FVH	Macro-FVH	
EURIBOR 1M		1,743,037		750,000	475,992	2,969,029
EURIBOR 3M	156,448	2,290,789		750,000		3,197,237
EURIBOR 6M	4,699,224	7,118,137	144,000	1,733,385	300,190	13,994,936
USD 3M LIBOR FALLBACK SOFR	350,226					350,226
USD SOFR	50,000					
EURIBOR 30Y CMS	80,097					80,097
ESTR	199,000					
Total	5,534,995	11,151,963	144,000	3,233,385	776,182	20,840,526

On 30 June 2023 the publication of the USD LIBOR stopped, therefor the Bank commitment was to intensify negotiation with its counterparties, aimed to reduce the stock of relationship still indexed to stopped rates and to switch to SOFR indices. In detail the switch to fallback SOFR curve was made through the use of contractual clauses (*fallback*)⁵¹ indicating an alternative reference rate, built starting from the SOFR curve added specific spreads for each pillar. The name of the index specifically created for this purpose is USD 3M LIBOR FALLBACK SOFR. At the date of these financial statements, doesn't exist derivative contracts designated in an hedging relationship indexed to the rates involved in the Reform.



Quantitative Information

A. Financial hedging derivatives

A.1 Financial hedging derivatives: end of period notional amounts

Underlying asset/Type of derivative	Total 31 12 2023				Total 31 12 2022			
	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 agreements	Contracts not subject to master netting agreements	
1. Debt securities and interest rate	-	20,801,463	-	-	-	23,927,791	-	-
a) Options	-	3,971,432	-	-	-	5,063,368	-	-
b) Swaps	-	16,830,031	-	-	-	18,864,423	-	-
c) Forward	-	-	-	-	-	-	-	-
d) Futures	-	-	-	-	-	-	-	-
e) Other	-	-	-	-	-	-	-	-
2. Equity securities and stock indices	-	-	-	-	-	-	-	-
3. Exchange rates and gold	-	350,226	-	-	-	362,835	-	-
a) Options	-	-	-	-	-	-	-	-
b) Swaps	-	350,226	-	-	-	362,835	-	-
c) Forward	-	-	-	-	-	-	-	-
d) Futures	-	-	-	-	-	-	-	-
e) Other	-	-	-	-	-	-	-	-
4. Commodities	-	-	-	-	-	-	-	-
5. Other underlying	-	-	-	-	-	-	-	-
Total	-	21,151,689	-	-	-	24,290,626	-	-



A.2 Financial hedging derivatives: gross positive and negative fair value - breakdown by products

Underlying asset/Type of derivative	Total 31 12 2023				Total 31 12 2022			
	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 agreements	Contracts not subject to master netting agreements	
1. Positive fair value	-	-	-	-	-	-	-	-
a) Options	-	12,785	-	-	-	37,182	-	-
b) Interest rate swap	-	956,485	-	-	-	1,388,923	-	-
c) Cross currency swap	-	-	-	-	-	-	-	-
d) Equity swap	-	-	-	-	-	-	-	-
e) Forward	-	-	-	-	-	-	-	-
f) Futures	-	-	-	-	-	-	-	-
g) others	-	-	-	-	-	-	-	-
Total	-	969,270	-	-	-	1,426,105	-	-
2. Negative fair value	-	-	-	-	-	-	-	-
a) Opzioni	-	33,509	-	-	-	17,576	-	-
b) Interest rate swap	-	584,266	-	-	-	717,658	-	-
c) Cross currency swap	-	42,905	-	-	-	54,861	-	-
d) Equity swap	-	-	-	-	-	-	-	-
e) Forward	-	-	-	-	-	-	-	-
f) Futures	-	-	-	-	-	-	-	-
g) Others	-	-	-	-	-	-	-	-
Total	-	660,680	-	-	-	790,095	-	-



A.3 Financial OTC hedging derivatives: notional amounts, gross positive and negative fair value by counterparties

31 12 2023

Contracts not subject to netting agreements	Central counterparties	Banks	Other financial companies	Other entities
Contracts not subject to master netting agreements				
1) Debt securities and interest rates				
- notional value	X	-	-	-
- positive fair value	X	-	-	-
- negative fair value	X	-	-	-
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	-	19,929,998	871,465	-
- positive fair value	-	929,283	39,987	-
- negative fair value	-	514,105	103,670	-
2) Equity securities and stock indices				
3) Exchange rates and gold				
- notional value	-	350,226	-	-
- positive fair value	-	-	-	-
- negative fair value	-	42,905	-	-
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	1,946,405	4,405,437	14,449,621	20,801,463
A.2 Financial derivatives on equity securities and stock indices	-	-	-	-
A.3 Financial derivatives on exchange rates and gold	350,226	-	-	350,226
A.4 Financial derivatives on other underlying assets	-	-	-	-
A.5 Other financial derivatives	-	-	-	-
Total 31 12 2023	2,296,631	4,405,437	14,449,621	21,151,689
Total 31 12 2022	3,906,258	7,157,625	13,226,743	24,290,626



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 financial 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 financial year.

B.3 OTC credit hedging derivatives: notional amounts, gross positive and negative fair value by counterparties

The tables for this section were not completed since the Bank has no credit hedging derivatives for either the current or previous financial year.

B.4 Residual life of OTC credit hedging derivatives: notional amounts

The tables for this section were not completed since the Bank has no credit hedging derivatives for either the current or previous financial 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 provided, 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 values by counterparties

The table shows the positive or negative fair values of derivatives subject to netting pursuant to IAS 32.42.

31 12 2023

Underlying assets	Central counterparties	Banks	Other financial companies	Other entities
A. Financial derivatives				
1. Debt securities and interest rates				
- notional value	-	70,055,245	143,896,682	-
- positive fair value	-	692,350	506,861	-
- negative fair value	-	-	-	-
2. Equity securities and stock indices				
3. Exchange rates and gold				
4) Commodities				
4. Other underlying				
- notional value	-	-	4,243,640	-
- positive fair value	-	-	4,759	-
- negative fair value	-	-	-	-
B. Credit derivatives				
1. Purchase of protection				
- notional value	-	-	68,425	-
- positive fair value	-	-	-	-
- negative fair value	-	-	55	-
2. Sales of protection				



Section 4 – Liquidity risk

Qualitative Information

A. Liquidity risk: general aspects, operational processes and measurement methods

The qualitative information on the management and measurement of the liquidity risk is shown in Part E of the Notes to the Consolidated Financial Statements.



Quantitative Information

1. Breakdown of financial assets and liabilities by residual contractual duration - Currency: Euro

31.12.2023

Account/time	On demand	1 to 7 days	7 to 15 days	15 days to 1 month	1 to 3 month	3 to 6 month	6 month to 1 year	1 to 5 Years	Over 5 years	Unspecified maturity
Balance-sheet assets	23,244,067	5,460,180	1,138,958	1,877,003	4,431,129	5,627,620	7,138,289	25,756,649	37,156,551	503,297
A.1 Government securities	-	3,336	364,511	145,021	377,282	809,093	1,447,442	4,395,952	6,086,938	-
A.2 Other debt securities	116,288	7	527	3,387	47,142	148,471	96,611	614,827	2,538,814	3,431
A.3 Units of UCITS	230,337	-	-	-	-	-	-	-	-	-
A.4 Loans	22,897,442	5,456,837	773,920	1,728,595	4,006,705	4,670,056	5,594,236	20,745,870	28,530,799	499,866
- Banks	13,633,580	133,704	182,503	255,185	185,009	63,938	240,384	52,291	461,413	494,268
- Customers	9,263,861	5,323,133	591,417	1,473,409	3,821,696	4,606,119	5,353,852	20,693,579	28,069,386	5,598
Balance-sheet liabilities	67,976,029	12,817,978	194,937	1,622,921	5,100,776	3,806,483	4,761,148	7,871,405	2,110,301	-
B.1 Deposits and current accounts	64,022,709	52,040	72,034	188,899	444,028	480,378	2,054,022	1,613,194	330,000	-
- Banks	2,446,214	-	-	28,319	650	3,900	400,925	561,376	330,000	-
- Customers	61,576,495	52,040	72,034	160,580	443,378	476,478	1,653,097	1,051,818	-	-
B.2 Debt securities	135,011	20	25	1,129,758	50,851	8,174	2,296,910	5,714,499	1,255,926	-
B.3 Other liabilities	3,818,309	12,765,918	122,878	304,264	4,605,897	3,317,931	410,216	543,712	524,375	-
Off-balance-sheet transactions										
C.1 Financial derivatives with exchange of principal										
- long positions	35,300	1,727,193	41,160	713,047	1,237,473	501,259	480,158	631,584	216,889	-
- short positions	123,400	2,365,009	7,523	161,723	920,435	333,394	291,567	556,701	800,033	-
C.2 Financial derivatives without exchange of principal										
- long positions	8,609,539	6	-	21,718	37,746	43,093	67,065	-	-	-
- short positions	7,513,834	11,614	18,195	10,027	16,214	38,979	77,726	-	-	-
C.3 Deposits and borrowings to be received										
- long positions	-	18,524,995	-	-	-	-	-	-	-	-
- short positions	-	18,524,995	-	-	-	-	-	-	-	-
C.4 Irrevocable commitments to disburse funds										
- long positions	146,619	8,163,274	87,787	98,980	-	153,337	16,084	280,417	823,770	-
- short positions	1,266,890	8,503,378	-	-	-	-	-	-	-	-
C.5 Financial guarantees given	5,483	7	34	2,077	524	944	3,012	4,595	490	-
C.6 Financial guarantees received	-	-	-	-	-	-	-	-	-	-
C.7 Credit derivatives with exchange of principal										
- long positions	-	-	-	-	-	6,876	71,404	1,183,858	1,218,036	-
- short positions	-	-	-	-	-	6,876	71,404	1,183,858	1,218,036	-
C.8 Credit derivatives without exchange of principal										
- long positions	777	-	-	-	-	-	-	-	-	-
- short positions	829	-	-	-	-	-	-	-	-	-



2. Breakdown of financial assets and liabilities by residual contractual duration - Currency: Other

31 12 2023

Account/time	On demand	1 to 7 days	7 to 15 days	15 days to 1 month	1 to 3 month	3 to 6 month	6 month to 1 year	1 to 5 Years	Over 5 years	Unspecified maturity
Balance-sheet assets	216,035	42,178	41,179	69,042	219,984	95,502	67,553	92,611	610,902	3,116
A.1 Government securities	-	-	-	-	53	1,845	1,374	1,441	67,010	-
A.2 Other debt securities	6	-	2,207	965	16,723	24,850	42,145	85,426	543,671	-
A.3 Units of UCITS	55,702	-	-	-	-	-	-	-	-	-
A.4 Loans	160,327	42,178	38,972	68,077	203,208	68,807	24,034	5,744	221	3,116
- Banks	87,326	24,513	9,110	9,146	12,648	22,752	12,407	1,187	-	-
- Customers	73,001	17,665	29,862	58,931	190,560	46,056	11,628	4,556	221	3,116
Balance-sheet liabilities	744,775	6,925	30,941	1,059	17,484	24,578	2,285	-	-	-
B.1 Deposits and current accounts	734,068	6,925	30,941	1,059	17,484	24,578	2,285	-	-	-
- Banks	107,983	2,715	-	-	-	-	-	-	-	-
- Customers	626,085	4,211	30,941	1,059	17,484	24,578	2,285	-	-	-
B.2 Debt securities	-	-	-	-	-	-	-	-	-	-
B.3 Other liabilities	10,707	-	-	-	-	-	-	-	-	-
Off-balance-sheet transactions										
C.1 Financial derivatives with exchange of principal										
- long positions	-	1,056,676	3,913	42,450	135,591	99,961	91,635	24,061	-	-
- short positions	13,575	602,728	11,205	168,710	671,504	141,698	132,327	12,345	-	-
C.2 Financial derivatives without exchange of principal										
- long positions	52,284	-	-	-	-	-	-	-	-	-
- short positions	45,271	-	-	-	-	-	-	-	-	-
C.3 Deposits and borrowings to be received										
- long positions	-	-	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-	-	-
C.4 Irrevocable commitments to disburse funds										
- long positions	-	-	-	240	270	487	-	-	-	-
- short positions	997	-	-	-	-	-	-	-	-	-
C.5 Financial guarantees given	48	-	-	11	2	-	249	-	-	-
C.6 Financial guarantees received	-	-	-	-	-	-	-	-	-	-
C.7 Credit derivatives with exchange of principal										
- long positions	-	-	-	-	-	4,525	13,575	43,439	-	-
- short positions	-	-	-	-	-	4,525	13,575	43,439	-	-
C.8 Credit derivatives without exchange of principal										
- long positions	-	-	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-	-	-



Self-securitisations

The securitisation transactions whereby the Bank underwrites securities issued by special purpose vehicles (self-securitisations) or for which only securities fully subscribed by the Group remained outstanding, are not shown in the tables of Part E of the Notes to the Financial Statements, section “C. Securitisation and asset disposal transactions”, pursuant to the provisions of Bank of Italy Circular 262.

Self-securitisations of assets are transactions aimed at improving liquidity risk management by optimising the amount of assets readily available to cover liquidity requirements.

Although the Bank's direct and full underwriting of the notes issued by the vehicles, i.e. the total holding of securities at a point in time after issue, 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 (limited to the senior tranches as ECB eligible) and for purchase agreements by increasing the availability of disposable assets, thus improving the Bank safety margin against liquidity risk (counterbalancing capacity). These 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 2023, this category includes the self-securitisations completed in December 2007 (Siena Mortgages 07-5), April 2008 (Siena Mortgages 07-5 II series), April 2019 (Siena PMI 2016 Series 2)⁸⁵.

Siena Mortgages 07-5, I and II series

On 21 December 2007, the Parent Company, through the special purpose vehicle Siena Mortgages 07-5 S.p.A., has finalised a securitisation of performing loans consisting of a portfolio of 57,968 residential mortgage loans for a total of EUR 5,162.4 mln, of which a balance of EUR 564.5 mln (12,599 mortgage loans) outstanding as at 31 December 2023.

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 2023:

- Class A notes (Aa3 and AA-) for a nominal amount of EUR 4,765.9 mln, of which EUR 4,613 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.

At the same time as the securities listed above, the special purpose vehicle also issued class D securities for an initial amount of EUR 124.0 mln, the proceeds of which were partly allocated to the establishment of a cash reserve. The target level of the cash reserve was gradually reduced based on the performance of the transaction: as at 31 December 2023, this reserve amounted to EUR 31.5 mln. The Class D notes were redeemed until reaching the 10% threshold (EUR 12.4 mln).

Through the same special purpose vehicle (Siena Mortgages 07-5 S.p.A.), on 24 April 2008 a second transaction was finalised (Siena Mortgages 07-5 series 2), collateralised by a separate pool of assets consisting of an additional sale of a portfolio of performing loans composed of 41,888 residential mortgage loans for a total of EUR 3,416.0 mln and with a residual life of about 20 years.

As at 31 December 2023, this portfolio had a residual debt of EUR 432.9 mln (7,578 mortgages).

In order to fund acquisition of the loans, the Vehicle issued RMBS notes in the following classes, rated by Moody's and Fitch as at 31 December 2023:

- Class A notes (Aa3 and A+) for a pair value of EUR 3,129.4 mln, of which EUR 2,995 mln redeemed;
- Class B notes (Aa3 and A+), for a nominal amount of EUR 108.3 mln;
- Class C notes (NR and CCC), for a nominal amount of EUR 178.3 mln.

At the same time as the securities listed above, the vehicle also issued class D securities for an initial amount of EUR 82.1 mln, the proceeds of which were partly allocated to the establishment of a cash reserve. The target level of the cash reserve was gradually reduced based on the performance of the transaction: as at 31 December 2023,

⁸⁵ The Siena PMI 2016 Series 2 transaction, following redemption of the securities placed on the market, became a self-securitisation in 2022 since the outstanding securities were entirely underwritten by the Parent Company.



this reserve amounted to EUR 19.8 mln. The Class D notes were redeemed until reaching the 10% threshold (EUR 8.2 mln).

Siena Mortgages 09-6, I series

It should be noted that the Bank, in February 2023, authorised the completion of the early closing of the Siena Mortgages 09-6 securitisation with the consequent repurchase of the residual portfolio.

Siena PMI 2016 Series 2

In 2019 a securitisation was finalised through the vehicle Siena PMI 2016 Srl. On 12 April 2019, the Bank finalised a securitisation transaction of a portfolio of performing loan agreements granted to Italian small to medium sized enterprises, in the amount of EUR 2,258.4 mln. As at 31 December 2023, the remaining debt was EUR 448.6 mln, for a total of 4,541 loan agreements.

To fund the acquisition of the portfolio sold, on 19 June 2019 the SPV issued asset-backed securities (ABS) in the following classes, rated by Fitch and DBRS as at 31 December 2023 as follows:

- (i) Class A1 notes for a nominal amount of EUR 519.4 mln, redeemed in full;
- (ii) Class A2 notes for a nominal amount of EUR 813.0 mln, redeemed in full;
- (iii) Class B notes for a nominal amount of EUR 225.8 mln, redeemed in full;
- (iv) Class C notes (AA and AAA) for a pair value of EUR 271.0 mln, of which EUR 218.8 mln redeemed;
- (v) Class D notes (BB+ and BBB) for a pair value of EUR 248.5 mln;
- (vi) Class J notes (not rated) for a nominal amount of EUR 180.7 mln.

The Class A2 notes were placed with institutional investors for a total of EUR 720 mln; the remaining senior notes, together with the mezzanine and junior notes, were instead underwritten by the Bank.

The partial sale of the Class A2 notes on the market did not entail the derecognition of the underlying assets from the balance sheet of the transferring bank, which has substantially retained all risks and benefits associated with the ownership of the assets sold. Following the full repayment of that class in 2022, the transaction was reclassified from “Own securitisation without derecognition” to self-securitisation.



Section 5 - Operational risk

Qualitative Information

A. Operational risk: general aspects, operational processes and measurement methods

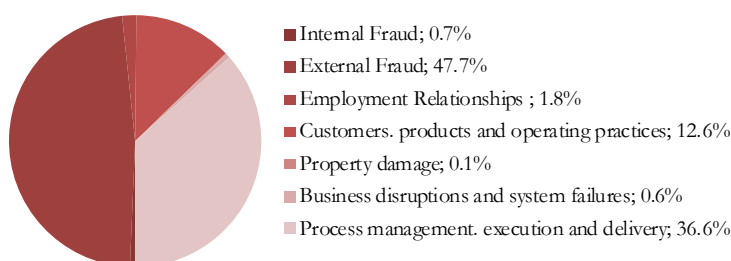
The qualitative information on the management and measurement of operational risks is shown in Part E of the Notes to the Consolidated Financial Statements.

Quantitative Information

The following table shows the percentage distribution of the number of new events and operating losses recognised in 2023, net of the accounting treatment made during the year on events recognised in previous years, broken down into the risk class:

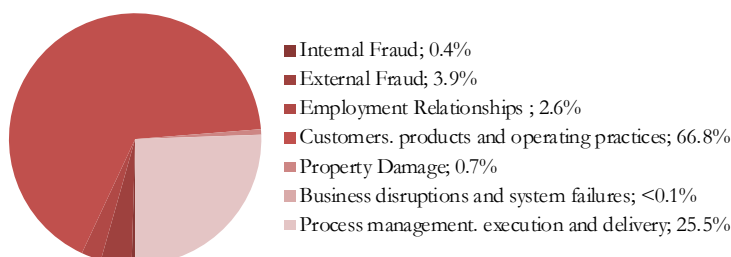
Events breakdown

Monte dei Paschi di Siena Bank - 31 12 2023



Losses breakdown

Monte dei Paschi di Siena Bank - 31 12 2023



As at 31 December 2023, the number of operational risk events and the operating losses have decreased compared to December 2022. 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 67% of the total) and operational and process management shortfalls (under “Process management, execution and delivery”: around 26%). With regard to breaches of professional obligations towards customers, the events mainly refer to disputes over derivative transactions and over the application of compound interest.



Main types of legal, employment law and tax risks

The following were pending as at 31 December 2023:

- legal proceedings with relief sought, where quantified, totalling EUR 3.605,7 mln;
- out-of-court claims with relief sought, where quantified, totalling EUR 62.4 mln;
- risks associated with contractual guarantees with relief sought, where quantified, of EUR 306.9 mln.

These amounts, in accordance with IAS 37, include all disputes, out-of-court claims and contractual risks for which the risk of disbursement of economic resources deriving from potential loss has been assessed as likely or possible and, therefore, does not include disputes for which the risk has been assessed as remote. The aforementioned risks were specifically and carefully analysed by the Bank, particularly in the presence of a likely risk gradient and if a reliable estimate of the relative amount could be made, and specific and appropriate provisions were allocated to the Provision for Risks and Charges. Without prejudice to the risk of uncertainty that characterises every dispute, the estimate of the obligations that could emerge from the disputes - and therefore the amount of any provisions made - derives from the forecast assessments regarding the outcome of the proceedings.

These forward-looking assessments are in any case carried out on the basis of the information available at the time of the estimate. As indicated in the paragraphs “Use of estimates and assumptions when preparing financial statements”, to which reference is made, the complexity of the situations and corporate transactions forming the basis of the disputes imply significant elements of proceedings that could affect the if, how much and related materialisation timing of the liability. In this regard, therefore, although the Bank’s estimates are considered robust, reliable and compliant with the dictates of reference accounting standards, it cannot be excluded that charges arising on final settlement of the disputes may prove different, even significantly, from those allocated. The above aggregate includes:

1. Legal disputes and out-of-court claims

The following were pending as at 31 December 2023:

- o legal disputes with a total relief sought, where quantified, of around EUR 3,500.9 mln, of which approximately EUR 1,631.6 mln as relief sought relating to disputes classified as “likely” risk, for which provisions for EUR 446.3 mln are recognised and approximately EUR 1,869.3 mln as relief sought attributed to disputes classified as having “possible”;
- o out-of-court claims for a total relief sought, where quantified, of approximately EUR 62.4 mln, of which approximately EUR 47.1 mln classified with as a “likely” risk, for which provisions for EUR 18.0 mln are recognised, and approximately EUR 15.3 mln with a “possible” risk.

The disputes of greatest relevance by macro-category or individually are illustrated below.

Disputes regarding compound interest, interest rates and conditions

The total relief sought in these disputes as at 31 December 2023 amounted to EUR 227.7 mln (EUR 245.1 mln as at 31 December 2022), while the allocated provisions amounted to EUR 97.9 mln (down from the provision of EUR 112.3 mln as at 31 December 2022).

Dispute regarding claw-back actions in insolvency proceedings

The total relief sought in these disputes as at 31 December 2023 was EUR 52.6 mln (EUR 56.2 mln as at 31 December 2022), while the allocated provisions amounted to EUR 17.0 mln (up from the provision of EUR 14.5 mln outstanding as at 31 December 2022).

Dispute with purchasers of subordinated bonds issued by the Bank

Following the burden-sharing plan implemented in 2017 in application of Italian Law Decree no. 237/2016, some investors who had purchased subordinated bonds issued by the Bank (later becoming shareholders as a result of the aforementioned measure, with resulting losses compared to the amount initially invested) sued the Bank, claiming that, at the time of the investment, it did not inform customers regarding the nature and characteristics of the financial instruments purchased, also raising objections on the proper fulfilment of obligations with which the Bank must comply as a financial intermediary.



This dispute is primarily related to investments in Lower Tier II bonds; indeed, in the majority of the cases the investors had their securities converted into ordinary shares pursuant to the law, without being able to benefit from the public offering for settlement and exchange promoted by the Bank pursuant to Decree no. 237/2016 (so-called Burden Sharing Decree) intended solely for retail investors.

However, for the sake of comprehensiveness, we would like to point out other cases where, despite purchasing Upper Tier II securities, the counterparties claim to have been unable to participate in the public offering due to misselling by the Bank, or in any event to have had objections relating to the Upper Tier II securities purchased after 31 December 2015 (cut-off date). Lastly, a limited number of disputes concerns cases in which investors sold their bonds prior to the Burden Sharing pursuant to Decree no. 237/2016. The focus of the opposing claims is concentrated on the alleged lack of disclosure and/or in any case violations of specific regulations on financial intermediation.

The total relief sought in these disputes as at 31 December 2023 was EUR 34.7 mln (EUR 36.3 mln as at 31 December 2022), while allocated provisions totalled EUR 15.5 mln (down compared to a total provision of EUR 15.8 mln as at 31 December 2022).

Derivatives litigation

Litigation concerning OTC derivative contracts is mostly concerned with the ascertainment of the nullity of the product on the assumption that the financial instrument lacks the indication of elements such as the mark to market and the probabilistic scenarios considered essential by the now dominant jurisprudence following the well-known ruling of the Supreme Court in United Sections No. 8770/2020 (later confirmed by pronouncements No. 21830/2021 and No. 22014/2023).

On the assumption of nullity, the counterparties therefore request that the Bank be ordered to return all the amounts paid for the financial instruments in question, or the repetition of the spreads paid, the commissions as well as the failure to take on the residual mark to market in cases in which the derivative is still in place.

The total relief sought in these disputes as at 31 December 2023 was EUR 124.2 mln (EUR 61.0 mln as at 31 December 2022), whilst allocated provisions totalled EUR 45.5 mln (up compared to a provision of EUR 29.4 mln as at 31 December 2022).

Disputes and out-of-court claims related to financial information

As at 31 December 2023, the Bank was exposed to civil actions, to the consequences of decisions arising from criminal proceedings (955/16 and 33714/16), and to out-of-court claims with regard to the financial information disclosed during the past periods.

The total relief sought at the same date for this type of dispute was equal to approx. EUR 1,340 mln, broken down as follows (data in EUR mln):

Type of dispute	31 12 2023	31 12 2022
Civil dispute	685	1,591
Filed civil claim cp 29634/14	-	11
Filed civil claim cp 955/16	160	158
Filed civil claim cp 33714/1	495	
Total legal proceedings	1,340	1,860
Out-of-court claims	-	1,533

With reference to civil disputes, the decrease in relief sought recorded as at 31 December 2023 compared to the end of the previous year, amounting to EUR 906 mln, is attributable to: (i) the reclassification to “remote” risk of a relief sought of EUR 741 mln Euro, carried out starting from 30 September 2023, following the ruling of the Court of Cassation of 11 October 2023 issued as part of criminal proceedings 29634/14 and (ii) the settlement of a relief sought of EUR 165 million relating to certain plaintiffs in civil actions for intervention in criminal case 33714/16.

The relief sought of EUR 111 million referred to the criminal proceedings 29634/14, classified as a “remote” risk as at 30 September 2023, was extinguished on 11 October 2023 following the above-mentioned decision of the Court of Cassation.



The document-based relief sought referring to the civil plaintiffs in the criminal proceedings 33714/16 amounted to EUR 495 mln, and is represented for the first time in the fourth quarter of 2023, after the Bank appearance in November 2023 as civilly liable party.

The relief sought of out-of-court proceedings as at 31 December 2023, net of complaints and mediations converted into judicial initiatives, amounted to EUR 1,519 mln and is not represented in the above table following the classification of the related risk from “likely” to “remote”.

The main disputes by type are outlined below.

Banca Monte dei Paschi di Siena S.p.A. vs. Alken Fund Sicav and Alken Luxembourg S.A. (now VIRMONT SA) dispute.

On 22 November 2017, the opposing parties (the “Funds”) served a complaint on the Bank, as well as Nomura International (“Nomura”), 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 (TUF), 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 the Bank 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 the Bank 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 opposing parties 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. It should be noted that the Bank has entered an appearance in time, articulating its defence; in the lawsuit, four natural persons have also intervened, separately and independently, claiming damages for a total of approx. EUR 0.7 mln. At the hearing on 7 July 2020, the case was withheld pending decision and by ruling of 7 July 2021, the Court of Milan rejected all requests made by the Funds, which were ordered to refund the legal costs of the Bank. The request of a single intervener was partially accepted, in relation to which the Bank was ordered to pay the sum of approximately EUR 52 thousand (for principal and interest) jointly with Nomura and in part with Messrs Antonio Vigni and the lawyer Giuseppe Mussari. The Bank, Nomura and the Funds have appealed (the latter for a relief sought of approximately EUR 454 mln) against the ruling before the Milan Court of Appeal in which two of the parties that had appeared in the first instance, including the only party that had seen its claim partially granted, also filed a cross-appeal against the Bank for a relief sought of approximately EUR 0.6 mln. On 13 July 2022, the first hearing was held in the three pending appeal proceedings, which were ordered to be joined. The Court adjourned the joined cases for closing arguments to a hearing on 5 July 2023. This date was then brought forward to 10 May 2023 when the case was heard and decided in accordance with art. 190 of the Italian Code of Civil Procedure following the closing and rebuttal pleadings.

With a ruling published on 9 November 2023, the Court of Appeal of Milan rejected the claims of the Funds and the cross-appeals in their entirety, while the appeals of Banca MPS, Nomura, Mussari and Vigni were upheld. On 9 January 2024, the Funds filed an appeal before the Court of Cassation.

York and York Luxembourg Funds vs. Banca Monte dei Paschi di Siena S.p.A.

On 11 March 2019, York and York Luxembourg Funds served a writ of summons to the Bank’s registered office, bringing an action before the Court of Milan (Section specialised in corporate matters) against the Bank, Messrs. Alessandro Profumo, Fabrizio Viola, Paolo Salvadori as well as Nomura International PLC, ordering the defendants, jointly and severally, to pay damages amounting to a total of EUR 186.7 mln and - subject to an incidental finding that the offence of false corporate communications has been committed - to compensation for non-monetary damages to be paid on an equitable basis, pursuant to art. 1226 of the Italian Civil Code, plus interest, revaluation, interest pursuant to art. 1284, para. IV of the Italian Civil Code, and interest compound pursuant to art. 1283 of the Italian Civil Code.

The plaintiffs’ claim is based on alleged losses incurred as part of its investment transactions in Banca MPS totalling EUR 520.3 mln, carried out through the purchase of shares (investment of EUR 41.4 mln by the York Luxembourg Fund) and through synthetic purchases of equity swap contracts (whose value was linked to the performance of the MPS share at a 1:1 ratio) (investment of EUR 478.9 mln by the York Funds). The parties report that they have fully disposed of the two investments described above with losses of approximately EUR 5.5 mln in the first investment and EUR 181.2 mln in the second.



The investment transactions challenged began in March 2014, when Messrs. Fabrizio Viola and Alessandro Profumo held the offices of CEO and Chairman, respectively, of the Bank. The plaintiffs charge alleged unlawful behaviour by top management of the Bank in falsifying the financial representation in financial statements, substantially modifying the assumptions used in measurements of financial instruments issued by the Bank.

The Bank duly appeared before the court. The parties filed preliminary briefs and argued their respective motions, and at the hearing on 15 July 2022 the Court of Milan: (i) declared the witness evidence requested by York, Nomura, Profumo and Viola to be inadmissible and (ii) referred to the panel – following the outcome of the decision regarding the causation– the assessment of the need to dispose of the accounting expert witness requested by York. At the hearing of 23 November 2023, the parties specified the conclusions and the case was withheld for decision with the legal deadline for the filing of the concluding documents.

Banca Monte dei Paschi di Siena S.p.A. / Civil action and third-party action of the Bank as civilly liable party

Criminal proceedings no. 29634/14

On 8 November 2019, the Court of Milan read the conclusion of the ruling of first instance, convicting all accused natural persons and, pursuant to Italian Legislative Decree 231/2001, Deutsche Bank AG and Nomura International PLC as legal persons. The grounds of the ruling were filed on 12 May 2020.

The Bank, as civilly liable party (not accused pursuant to Italian Legislative Decree 231/2001 as a result of a previous plea bargaining) was convicted – jointly with the accused natural persons and the two foreign banks – and ordered to pay damages to the civil parties still making an appearance, to be settled in separate civil proceedings, the Court having rejected the request to make an amount available on a provisional and immediately enforceable basis, pursuant to art. 539 of the Italian Code of Criminal Procedure.

The Bank filed an appeal before the Court of Appeal of Milan against the ruling of first instance, as the civilly liable party, jointly and severally liable with the defendants.

On 6 May 2022, the Court of Appeal of Milan, Second Criminal Division, acquitted all the defendants in the trial with a broad formula, highlighting that the no offence was committed. On 16 November 2022, an appeal was lodged with the Court of Cassation by both the Attorney General's Office at the Court of Appeal of Milan and Consob. The appeals were discussed at the hearing of 11 October 2023 before Criminal Section V of the Court of Cassation.

At said hearing, the Court of Cassation, at the request of the Attorney General of the Supreme Court, declared the appeal of the Attorney General filed with the Court of Appeal to be inadmissible (the appeal filed by Consob was instead withdrawn following settlement with Nomura International PLC), consequently confirming the acquittal of all defendants in the case.

As a result of this, the relief sought of this proceedings was definitively cancelled starting from 11 October.

Criminal proceedings no. 13756/20

This criminal proceedings originate from the transmission of the documents to the Milan Public Prosecutor's Office ordered in the first instance ruling in criminal trial no. 29634/14, as, during the hearing of oral arguments, relevant elements and circumstances emerged against two former managers of the Bank not involved in criminal proceedings no. 29634/14 regarding the construction, completion and accounting of the FRESH, Santorini and Alexandria transactions.

In this regard, as reported above, to be noted is that on 11 October last year the Court of Cassation acquitted all the defendants in criminal proceedings no. 29634/14.

In the aforementioned proceedings, CONSOB filed a civil action and requested and obtained, with the authorisation of the Preliminary Hearing Judge of 13 February 2023, the summons of the Bank as civilly liable party pursuant to art. 2049 of the Italian Civil Code for the offences alleged against the former Executive Managers named, with a claim for damages to be quantified during the trial. At the hearing on 4 May 2023, the Bank appeared in proceedings as a civilly liable party.

At the hearing in chambers of 16 November 2023, the Judge for the Preliminary Investigations, in line with the Supreme Court ruling which confirmed the acquittal for all the defendants in the chief proceedings, issued a ruling not to proceed against the two former managers.



Criminal proceedings no. 955/16

On 12 May 2017 the committal for trial of the representatives Alessandro Profumo, Fabrizio Viola and Paolo Salvadori 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.

Following the formalisation of the appearance before the court by the Bank, the Public 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.

Following the outcome of the preliminary hearing, the Preliminary Hearing Judge found no grounds for a decision not to proceed to judgement and ordered the committal for trial of the defendants, natural persons (Messrs. Viola, Profumo and Salvadori) and the Bank (as entity liable pursuant to Italian Legislative Decree 231/01). Only Mr Salvadori was found not to be subject to proceedings solely for the charge pursuant to art. 185 of the Consolidated Law on Finance.

At the hearing on 16 June 2020, following the indictment, the representatives of the Public Prosecutor’s office requested the acquittal of the defendants.

On 15 October 2020, the Court of Milan read the conclusion of the ruling of first instance, registered under number 10748/20, sentencing all accused natural persons and the Parent Company pursuant to Italian Legislative Decree 231/01. The reasons were filed on 7 April 2021.

The Parent Company filed an appeal before the Court of Appeal of Milan against the ruling of first instance, as the civilly liable party, jointly and severally liable with the defendants, having administrative liability under Italian Legislative Decree 231/2001.

On 11 December 2023, the Court overturned the first instance ruling. In particular, the defendants were acquitted because the offence did not exist and consequently the Parent Company was acquitted of administrative liability pursuant to Italian Legislative Decree 231/01 due to non-existence of predicate offences. The Court also revoked, against the defendants and the parent company as the civilly liable party, the awards for damages and the reimbursement of court costs and ordered those civil parties who had appealed to pay the court costs at first instance. The reasons for the ruling will be filed by mid-March.

Criminal proceedings no. 33714/16

In relation to criminal proceedings no. 33714/16 pending before the Milan Public Prosecutor’s Office, the Bank was originally implicated as party bearing administrative liability pursuant to Italian Legislative Decree no. 231/2001 in connection with an allegation of false corporate communications (pursuant to art. 2622 of the Italian Civil Code) relating to the 2012, 2013, 2014 Financial Statements and the 2015 half-yearly report due to the alleged overstatement of so-called non-performing loans.

On 4 May 2018, the Bank’s position was dismissed by the Public Prosecutor’s Office due to the groundlessness of the crime (a measure also confirmed by the General Prosecutor’s Office on 15 March 2019).

On 25 July 2019, the GIP [Preliminary Investigations Judge] of the Court of Milan, on the one hand, acknowledged the dismissal of the proceedings against the Bank, as the liable entity pursuant to Italian Legislative Decree No. 231/2001 and, on the other hand, ordered the continuation of the investigations of the defendant natural persons (i.e. chairman of the Board of Directors, Managing Director/CEO and pro-tempore Chairman of the Board of Statutory Auditors) thus rejecting the Public Prosecutor’s request for the case to be dismissed (supported by a detailed expert report prepared in the interest of the Public Prosecutor’s Office). The investigations continued in the form of an evidence gathering procedure (in which the Bank did not participate) during which two experts were appointed by the Preliminary Investigations Judge, who, on 30 April 2021, filed their report. The questions posed to the experts mainly concerned the verification of the correctness and timeliness of the adjustments to non-performing loans recorded by the Bank in the period from 2012 to 2017 in compliance with the accrual principle and the other accounting standards in force at the time of the events. The conclusions of the experts (which contradicted those of the experts initially called upon by the Public Prosecutor’s Office) were then included in the notice of conclusion of the investigation.



At the hearing on 8 June 2021, the evidence gathering procedure was closed and the Preliminary Investigations Judge forwarded the documents to the Public Prosecutor's Office assigning it a deadline of 45 days to carry out any further investigations and make their determinations.

As part of this further investigation phase, the Public Prosecutor ordered two new technical consultations. In particular, on 16 November 2021, the Public Prosecutor instructed two additional consultants to review the documentation related to the 100 positions for which the ECB, in the context of the 2015-2016 inspection, had indicated the greater difference between the provisions set aside by the Bank and those indicated by the same Supervisory Authority, in order to identify the actual effect of such deviation. This analysis was concluded with the preparation of further technical advice. The Public Prosecutor's consultants, while finding some alleged accounting errors, came to significantly different conclusions from those of the expert report ordered by the Preliminary Investigations Judge in 2020 on the same credit positions.

In addition, the Public Prosecutor instructed two officials of the Bank of Italy to review the effects on regulatory capital of major adjustments to non-performing loans that the Bank would have had to make in the financial years covered by the above-mentioned 2020 report. In this case, too, the two appointees have filed their own expert opinion.

On 25 February 2022, the Preliminary Investigations Judge informed the defendants of the extension of the deadline for the conclusion of the investigation (until 31 May 2022) requested by the Public Prosecutor.

On 16 September 2022, a notice was received concerning the conclusion of preliminary investigations pursuant to art. 415-bis of the Italian Code of Criminal Procedure against three former members of the Bank (two Chairmen of the Board of Directors and one Chief Executive Officer) and a former Executive manager (responsible for the preparation of corporate accounting documents). Despite the previous dismissal, the Bank also received the same notice as party bearing administrative liability pursuant to Italian Legislative Decree 231/01. On 14 December 2022, a request for committal for trial was issued against the aforementioned representatives and the former executive; on 12 December 2022, the Bank's position as administrative manager pursuant to the Compliance Model under law 231 was instead cancelled.

The natural persons are charged with the offences of false corporate communications (pursuant to art. 2622 of the Italian Civil Code) and market manipulation (pursuant to art. 185 of the Consolidated Law on Finance) with reference to the 2013-2014-2015 Financial Statements and the 2015-2016 half-yearly reports, as well as of false information (pursuant to art. 173-bis of the Consolidated Law on Finance) in relation to the 2014-2015 prospectuses.

According to the charges, in the above-mentioned corporate communications, the defendants allegedly posted adjustments relating to non-performing loans in violation of accounting standards, thereby misrepresenting the economic and financial position of the Bank. According to the accusation, this misrepresentation was also reflected in the communications and prospectuses altogether released by the Bank.

More than 4,000 civil parties appeared at the first preliminary hearing held on 12 May 2023. The preliminary hearing continued on 26 June 2023, as part of which new civil parties filed a claim, for a total of more than 5,000 parties. Consob and the Bank of Italy have not joined the proceedings as civil parties. Almost all the civil parties requested that the Bank be summonsed as civilly liable.

On 19 September 2023, the Judge issued a decree summoning the party bearing civil liability and at the hearing on 10 November 2023 the Bank entered an appearance.

At the hearing of 22 December 2023, the cross-examination was held on the issues concerning the plaintiffs. The Judge reserved his judgement and postponed the hearing to 22 April 2024 for the reading of the order. The next hearing will also be devoted to any preliminary issues, with the clarification that if these are exhausted, the Prosecution will proceed to the discussion. On 10 November, the calendar of hearings was also confirmed: 22 April 2024, 30 May 2024, 20 June 2024, 27 June 2024.

Bank Monte dei Paschi di Siena S.p.A. vs. Caltagirone Group

By a writ of summons dated 2 August 2022, the companies Caltagirone Editore SPA, Finced Srl, Capitolium Srl, Mantegna 87 srl, Vianini Lavori Spa, and Fincal Spa brought an action against the Bank before the Court of Rome alleging that the Bank had failed to disclose to the market information in relation to investments in MPS shares made by the six companies between 2006 and 2011. In particular, the adverse parties deduced that they had invested a total of approximately EUR 856 mln in MPS securities, as well as having resold these financial instruments in the first few months of 2012, reporting a capital loss of approximately EUR 741 mln.



On the assumption that such damage is directly related to the allegedly unlawful conduct of the Bank for the dissemination of erroneous price-sensitive information since 2006, the opposing parties claim compensation for damages equal to the entire capital loss suffered, attributing to this allegedly untrue representation of the Bank's financial situation the fact that they purchased and/or maintained the MPS shares in their respective portfolios over the above-mentioned period of time.

At the first hearing on 30 January 2023, the judge reserved its decision, after which, by order of 19 November 2023, he declared the summons to be null and void as it was entirely generic, lacking even the causal connection between the allegedly unlawful conduct and the damage, and lacking the indication of the *causa petendi*, whereupon the Court adjourned the case to 16 April 2024, setting a peremptory term for both parties to supplement their defence documents.

The ruling of the Court of Cassation relating to criminal proceedings ref. 29634/14, together with other specific aspects of this dispute, from the third quarter of 2023 led to the reclassification of this dispute from "possible" to "remote" risk.

Banca Monte dei Paschi di Siena S.p.a. vs. Caputo + 24 others

On 4 December 2020, Mr Giuseppe Caputo and an additional twenty-five parties (now 24 after one of the plaintiffs died) sued the Bank before the Court of Milan to challenge the investments made by them in compliance with the share capital increases ordered by the same, or through purchases on the electronic/secondary market between 2014 and 2015. The plaintiffs claim that they have suffered serious damage as a result of the informational asymmetry created on the market by the Bank (here, referring, inter alia, to criminal proceedings R.G.N.R. (General Register of Crimes) 29634/14, concluded at first instance with ruling no. 13490/2019, as well as criminal proceedings R.G.N.R. 955/16, concluded at first instance with ruling no. 10748/2020), and they also argue the incorrect accounting of non-performing loans starting from the 2013 financial statements (here, conversely, referring to the ongoing criminal proceedings 33714/16); they also contest the unfair business practices put in place by the Bank, the investments in diamonds, the 2013-2017 Business Plan and the non-compliant business organization.

The plaintiffs therefore requested full compensation for the damage suffered equal to the entire consideration paid for the purchase of the BMPS shares, with a final quantification of the relief sought equal to approximately EUR 25.8 mln and - subject to the incidental finding of the crime of false corporate communications - compensation for non-pecuniary damage to be settled on an equitable basis pursuant to art. 1226 of the Italian Civil Code, plus interest and revaluation. Following the appearance of the MPS Bank and the first hearing, the parties filed the preliminary briefs and, at the subsequent hearing, discussed the requests formulated by the plaintiff, on which the Judge reserved the right to provide for their admission. Upon lifting the reservation, the Judge deemed it necessary to refer the case to the deliberating body in order to settle the dispute or to proceed with any expert investigations and therefore postponed the case to the hearing for closing arguments on 4 November 2022 which was then adjourned to 23 February 2023 regarding the same issues. On that date, the judge withheld the case for decision. With ruling of 6 November 2023, the Court declared the termination of the trial pursuant to art. 75, paragraph 1 of the Italian Code of Criminal Procedure for transfer of the action in the criminal proceedings relating to the credits (termination requested by all the plaintiffs except for two plaintiffs), rejected the opposing claims in full and sentenced the aforementioned two plaintiffs, jointly and severally, to pay the Bank's legal expenses settled in EUR 49,000 plus accessories, whereas the settlement of the legal expenses with reference to the plaintiffs against whom the termination was declared, was reserved for the criminal trial. On 8 February 2024, the ruling of the Court of Milan became *res judicata* since it was not appealed by the two remaining plaintiffs.

Banca Monte dei Paschi di Siena S.p.A. vs. Angelino + 40

By writ of summons dated 31 December 2022, Mr Angelino and forty other persons brought legal action against the Bank before the Court of Milan to challenge the investments made by them in compliance with the share capital increases ordered by the Bank, i.e. through purchases on the electronic secondary market of BMPS shares between 2013 and 2016. The plaintiffs claim to have suffered a serious loss as a result of the discrepancy of information disclosed on the market by the Bank (referring both to the criminal proceedings 29634/14 and to the proceedings 955/16); the focus of the opposing objections, also as a result of the acquittal of the former management Mussari and Vigni in 2022 by the Court of Appeal of Milan, is however focused on the alleged offences committed by the former directors Viola and Profumo starting from 2012 both with references - as mentioned - to criminal proceedings 955/16 now at the appeal stage and with regard to the incorrect accounting of non-performing loans starting from the 2013 Financial Statements (in this regard, referring to criminal proceedings 33714/16); the adverse



parties also contest the unfair commercial practices implemented by the Bank, the investments in diamonds, the 2013-2017 Business Plan.

The plaintiffs therefore requested full compensation for the damage suffered equal to the consideration paid for the purchase of the BMPS shares, with a final quantification of the relief sought of approximately EUR 81.2 mln in addition to interest and revaluation from the due date to the balance and in addition to the loss of profit; they also requested that the Bank be sentenced to pay compensation for damages, including non-pecuniary damages, subject to the preliminary assessment of the crime of false corporate communications (art. 2622 of the Italian Civil Code) and market manipulation (art. 185 of the Consolidated Law on Finance) to be settled on an equitable basis pursuant to art. 1226 of the Italian Civil Code. At the first hearing on 13 June 2023, the plaintiffs' lawyer reported that - in addition to five plaintiffs who had already filed civil claims in the criminal proceedings under RGNR 955/2016 - all the other plaintiffs also intended to transfer their claims for compensation against the Bank to the criminal proceedings, appearing as an aggrieved civil party in proceedings under RGNR 33714/16 with waiver of the proceedings in question pursuant to art. 75, paragraph 1 of the Italian Code of Criminal Procedure. At the hearing on 17 October 2023, to which the case had been adjourned, the opposing party therefore filed a claim for closure of the proceedings, except for 2 plaintiffs (and of the 5 parties appearing in proceedings ref. 955/16), for which the plaintiff instead requested suspension pursuant to art. 295 of the Italian Code of Civil Procedure. By order dated 20 October 2023, the judge declared the termination of proceedings pursuant to art. 75 of the Italian Code of Criminal Procedure with reference to all the plaintiffs with the exception of two plaintiffs for whom he ordered the suspension of proceedings pursuant to Article 295 of the Italian Code of Criminal Procedure. Therefore, the residual relief sought to date amounts to EUR 14.7 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

The grand total of out-of-court claims (complaints and mediations) received by the Bank from parties not involved in civil and criminal proceedings as at 31 December 2023, relating to capital increase transactions and allegedly incorrect financial disclosures in prospectuses and/or Financial Statements and/or price-sensitive information, amounted to EUR 1,519 bn, and was entirely classified as remote risk due to the civil and criminal judgements recorded in the fourth quarter.

Moreover, these are largely generic claims, received mainly from an advisory firm on behalf of institutional investors, in which the temporal references are not clarified (they claim losses that also refer to events that have never been disputed) and, which require particular investigation with respect to both the cause of action and the right to appeal. These are in fact investors who show that they have also made investments in the name and on behalf of third parties, whose ties with the claimant are neither clarified nor documented.

In fact, the information contained in these requests is particularly lacking in this regard and stands out:

- a) for being totally generic or indefinite (i.e. such as not to allow *prima facie* a verification of the same nature and/or the actual content of the claim);
- b) for the absence of elements enabling the prior ascertainment of possible deficiencies in the basic requirements for the formulation of claims for compensation (for example, in cases in which the complainant is not even able to demonstrate that they have made direct investments influenced by alleged misuse of information) to be ascertained in advance;
- c) for failure to refer to appropriate documentary support that are abstractly suitable to support any claim;
- d) for the absence of precise and reliable data that allow for the investment to be temporarily allocated (and distinguished) so as to be able to appreciate (and weigh) the unfounded profiles of the claim due to the absence of adequate demonstration of a causal link, also in light of the investment policy followed in practice by the investor.

The judicial proceeding described in more detail above and related (i) to the adjudication of the judgement relating to criminal proceedings 29634/14 and the consequent termination of the proceedings, (ii) to the issue, as part of criminal proceedings 955/16, of the acquittal judgement of the Court of Criminal Appeal of Milan and (iii) the issuance in the Alken case of the second instance ruling by the Court of Appeal of Milan, have led, in part as of 30 September but especially in the fourth quarter of 2023, also taking into account the progressive increase of further positive rulings in all clusters of civil litigation related to the disclosure of financial information in the period 2008-2015, to significant changes in the assessments of the risk of disbursement of economic resources deriving from



potential loss of the case. In detail, starting from 30 September 2023, the risk of losing was reclassified from “possible” to “remote” as regards legal disputes (including the one with the Caltagirone Group for EUR 741 mln), of the civil plaintiff claims in criminal proceedings 29634/14 and out-of-court claims concerning disputes relating to the period 2008-2011, the latter for a relief sought of EUR 405 mln. During the fourth quarter of 2023, the relief sought of civil action in criminal proceedings 29634/14 was definitively cancelled, the risk related to the civil dispute, as well as criminal proceedings 955/16, was downgraded from “likely” to “probable” and finally, the risk of out-of-court claims, other than those that were already classified as “remote” risk in September, was classified from “possible” to “remote”, with consequent recognition in the income statement of the related provisions for risks and charges.

As at 31 December 2023, only criminal proceedings 33714/16 is, as a precautionary measure and pending further developments, classified as “probable risk”. The provisions for risks and charges relating to these proceedings were determined so 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 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 civil party was calculated, taking into account the share of capital held from time to time. From a prudential standpoint, along with the differential damage, the different criterion of “full compensation” was also taken into account (of a minor importance in the prevailing law, including the one that is currently taking shape on this specific subject matter), and that is based on the argument that false or incomplete information may have a causal impact on the investment choices of the investors to such an extent that, in the presence of correct information, they would not have made the investment in question; in this case, the damage is therefore commensurate to the invested capital, net of the amounts recovered from the sale of shares by the civil party.

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 as it believes that such information could seriously jeopardise its position in disputes and in potential settlement agreements.

Overall, settlement agreements were reached which led to the closure of disputes and out-of-court claims for a total relief sought of approximately EUR 4.4 bn with a total outlay of approximately EUR 242 mln (5.5% of the relief sought); these amounts include the transaction for EUR 150 mln with the MPS Foundation, which took place in 2021, against a relief sought of EUR 3.8 bn (4% of the relief sought).

It should also be noted that until December 2023, disputes and criminal proceedings reached a ruling, at least in the first instance, concerning a relief sought of over EUR 751 mln. There were a minority of unfavourable judgements and resulted in damages from the Bank for approx. EUR 4 mln.

Banca Monte dei Paschi di Siena S.p.A. vs. Fresh 2008 bondholders

Some holders of FRESH 2008 securities maturing in 2009, with writ of summons served on 15 November 2017, initiated proceedings against the Bank, the company Mitsubishi UFJ Investors Services & Banking Luxembourg SA (which replaced the Bank in issuing the bond loan Bank of New York Mellon Luxembourg), the British company JP Morgan Securities PLC and the American company JP Morgan Chase Bank N.A. (which entered into a swap agreement with the bond loan issuer) so that: (i) the inapplicability of the Burden Sharing Decree to the holders of the FRESH 2008 Securities and, consequently, to hold that the said bonds cannot be forcibly converted into shares, (ii) the validity and effectiveness of the said bonds in accordance with the terms and conditions of their issue be affirmed insofar as they are governed by Luxembourg law, and, finally, (iii) it is declared that the Bank is not entitled, in the absence of the conversion of the FRESH 2008 Securities, to obtain from JP Morgan the payment of EUR 49.9 mln to the detriment of the holders of the FRESH 2008 Securities. The Court of Luxembourg, by order of 11 January 2022, dismissed the requests made by the Bank to stay the proceedings until the ruling of the international courts with regard to the preliminary objections raised by the Bank; on the other hand, it upheld the plea of lack of jurisdiction of the court before which the case was brought in relation to the claim concerning the usufruct contract entered into by the Bank with JP Morgan Securities PLC and JP Morgan Chase in the context of the 2008 share capital increase transaction. In relation to the aforementioned usufruct contract, the Luxembourg Court has reserved its judgement pending the decision of the Italian Court and, on the contrary, has declared its



jurisdiction in relation to the swap contract entered into by the Bank with the same counterparties in the context of the 2008 capital increase transaction.

It is noted that, following the start of the proceedings in question by the holders of the FRESH 2008 Securities, the Bank, on 19 April 2018, has brought a legal action 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) S.A. 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 asked:*

- to ascertain, pursuant to Article 22, paragraph 4 of Decree 237 of 23 December 2016, the ineffectiveness of the usufruct contract and the company swap agreement that provide for payment obligations in favour of JP Morgan Securities PLC and JP Morgan Chase Bank NA;
- to ascertain the ineffectiveness and/or termination and/or discharge of the usufruct contract or, in the alternative;
- to ascertain the termination of the usufruct contract due to the capital deficiency event of 30 June 2017.

The first hearing was held on 18 December 2018 and the Investigating 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 relief sought and the same cause, had granted the parties terms to reply only to the procedural objections and adjourned the hearing to 16 April 2019 for assessment of the disputed issue. At the subsequent hearing on 2 July 2019, the case was held over for decision and by order of 2 December 2019, the Court of Milan ordered the proceedings to be suspended pending the decision of the aforementioned Luxembourg Court. Against this order, the Bank had filed a petition with the Court of Cassation for the referral to a different competent court. The court has rejected the petition of the Bank with ruling dated 31 March 2021.

In the meantime, the holders of the Fresh securities challenged the first instance ruling issued by the Luxembourg Court in November 2022, against which the Bank in turn filed a cross-appeal.

At the same time, the Bank – based on the ruling issued by the Court of Luxembourg – filed an appeal to the Court of Milan for the resumption of the proceedings initiated therein in 2018, but the Court of Milan, with a recent order of 11 January 2024, declared it so inadmissible, highlighting that the suspension of the Italian proceedings had been ordered at the time (02.12.2019) until the final decision of the Luxembourg Court, a decision which, however, having been the subject, as mentioned above, of both the main appeal and the cross-appeal, did not become final, therefore the conditions that had prompted the Italian judge to withhold the suspended proceedings were still in place.

In the event of a favourable outcome of the dispute, the FRESH 2008 Securities will be converted into the shares, already issued, of the Bank which will also collect the amount of EUR 49.9 mln, recording a corresponding economic proceeds.

In the event of an unfavourable outcome of the dispute, the principle of burden sharing cannot be applied and therefore the bondholders will retain the right to receive the coupon (equal to Euribor 3M + 425 bps on a notional amount of EUR 1 bn) provided that the Bank generates distributable profits and pays dividends. Since the Bank has not paid dividends since the date of the burden sharing, any unfavourable outcome of the dispute will only produce prospective effects and only in the event of dividend distribution.

Considering that the Parent Company has not paid dividends since the date of the burden sharing, any unfavourable outcome of the dispute will only produce effects starting with the decision to distribute dividends in 2024 from the 2023 profit. In any case, at the current stage of the dispute, the Parent Company considers all rights of the 2008 FRESH bond-holders null and void pursuant to the application of art. 22, paragraph 4 of Italian Legislative Decree 237/2016 and of the capital deficiency event recorded as at 30 June 2017. It has therefore determined the equity ratios and earnings per share as at 31 December 2023 without taking into account the 2008 FRESH coupon.



Other disputes

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

This case, where the Bank was sued together with other credit institutions and companies with the summons of 27 June 2007, seeks the assessment of alleged monetary and non-monetary damage suffered by the plaintiff, as a result of an alleged unlawful report filed with the Italian Central Credit Register. The relative relief sought is EUR 157 mln. The plaintiff also asks that the defendant banks be found jointly liable, each proportionately to the seriousness of its behaviour. The Bank's defence was based on the fact that the company's extremely severe financial situation fully justified the Bank's initiatives.

At the hearing of 31 May 2018, the Judge reserved his decision on the preliminary objections raised by the parties. On 5 June 2018, the bankruptcy of the company was declared, which prompted the receivership to take up the case again. At the end of the preliminary investigation, during which an expert was court-appointed, the case was withheld for decision on 6 October 2022. Subsequently, on 11 November 2022, the Court of Salerno ascertained and settled only the non-pecuniary damage, amounting to EUR 20,000 for each bank (thus totalling EUR 100,000), plus interest and costs of litigation. The disbursement attributable to the Bank amounted to EUR 34,151.69. The substantially successful outcome of the proceedings led to the conclusion that the appeal was not admissible, which, however, was lodged by the Receivership with summons served on 10 July 2023. The paper hearing was held on 11 January 2024; the Court's rulings on the continuation of the proceedings are pending.

Banca Monte dei Paschi di Siena S.p.A. vs. Marcangeli Giunio S.r.l.

With a writ of summons, notified on 28 November 2019, the claimant Marcangeli Giunio S.r.l. asked the Court of Siena to assess, first and foremost, the contractual liability of the Bank for not issuing a loan of EUR 24.2 mln - necessary to the purchase of land and the construction of a shopping mall with spaces to be leased or sold - and subsequently the conviction of the Bank with order to pay compensation for damages and loss of profit in the amount of EUR 43.3 mln. As an alternative, in view of the facts specified in the writ of summons, a request is made for the Bank to be found pre-contractually liable for having interrupted the negotiations with the company without disbursing the agreed loan, and to be ordered to pay compensation in the same amount asked first and foremost.

In a judgment filed on 6 June 2022, the Court of Siena rejected the plaintiff company's claims for damages on the grounds of contractual and extra-contractual liability. The Court only upheld the restitutory claim brought by the opposing party with regard to the allegedly unlawful interest applied in connection with the land advances, quantified in EUR 58,038.27, plus legal interest, and ordering the costs to be offset. By summons dated 23 December 2022, the company filed an appeal before the Court of Appeal of Florence with first appearance hearing on 15 May 2023. The Bank duly appeared and, with ruling no. 2058/2023 of 12 October 2023, the Court substantially confirmed the favourable first instance decision, partly offsetting expenses. The favourable judgement will become final on 12 April 2024 for the time being no appeal has been received from the opposing party.

Banca Monte dei Paschi di Siena S.p.A. vs. Riscossione Sicilia S.p.A.

By writ of summons notified on 15 July 2016 Riscossione Sicilia S.p.A. (today the Italian Revenue Agency - Collection, which took over universally in all legal relationships of Riscossione Sicilia starting from 1 October 2021, pursuant to art. 76 of Italian Law Decree no. 73/2021 converted with Italian Law no. 106/2021) had summoned the Bank before the Court of Palermo, asking for it to be ordered to pay the total sum 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 Italian Law Decree 203/05, converted into Italian Law 248/05) of the equity investment held by the Bank in Monte Paschi Serit S.p.A. (later Serit Sicilia S.p.A.).

In the preliminary phase of the proceedings, a court-appointed technical consultancy was carried out, the results of which were favourable to the Bank. In fact, the court appointed expert not only concluded that the Bank owes nothing to Riscossione Sicilia S.p.A., but also identified a receivable of the Bank of roughly EUR 2.8 mln, equal to the balance of the price for the sale of 60% of Serit Sicilia S.p.A. to Riscossione Sicilia S.p.A. by the Bank (dating back to September 2006), a sum that has to date been held in escrow by Riscossione Sicilia S.p.A. With judgement no. 2350/22, filed on 30 May 2022, the Court of Palermo, essentially adhering to the conclusions of the court-appointed expert, rejected Riscossione Sicilia's counterclaims and sentenced the latter to pay the Bank approximately EUR 2.9 mln plus legal interest and court fees.



This judgment was appealed on 27 December 2022 by summons before the Court of Appeal of Palermo. The Bank made an entry of appearance with a petition filed on 15 April, explaining a cross-appeal. The first appearance at the hearing of 5 May was held in written form, and the time is now postponed to 7 November 2025.

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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 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 the registration of the claim. The Sicily Region filed a petition for the summons of Riscossione Sicilia, resulting in the postponement of the first appearance hearing, which was held on 26 September 2019 and in which the Judge, upon acknowledging the statements provided by the parties, set out the terms for lodging the statements pursuant to art. 183 of the Italian Code of Civil Procedure and adjourned to an evidentiary hearing scheduled for 26 November 2020. On that occasion, the Bank asked for the hearing closing arguments to be scheduled, requesting the Court to verify the action had become devoid of purpose, as Riscossione Sicilia during the proceedings had proved that the receivable claimed by the Sicily Region had been fully cancelled.

With ruling no. 3649/2021, published on 4 October 2021 and notified on 5 October 2021, the Court of Palermo rejected the Bank's opposition against the aforementioned order with simultaneous condemnation of the Bank to pay the litigation costs. The Bank lodged an appeal against this decision before the Palermo Court of Appeal. By order filed on 11 February 2022, the Court of Appeal ordered the joinder of the Italian Revenue Agency - Collection (ADER) to the case, as successor of Riscossione Sicilia spa, ordering it to appear at the hearing scheduled for 1 July 2022, during which time the case was postponed to the hearing of 22 November 2024 for the presentation of closing arguments.

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For the sake of completeness, it should be noted that the Bank has also filed an administrative case before the Regional Administrative Court of Sicily - Palermo office for the declaration of nullity and/or annulment of the injunction order pursuant to art. 2 of Italian Royal Decree no. 639/1910, notified by the Department on 17 July 2018, by appeal lodged on 16 October 2018 (RG 2201/2018).

The appeal concerns the challenging of 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 approx. EUR 68.6 mln plus interest at the rate established by special legislation for late payment in commercial transactions, as provided for in paragraph 4 of art. 1284 of the Italian Civil Code". With ruling no. 3043 of 17 November 2023, the Regional Administrative Court of Sicily accepted the Bank's appeal, cancelling the challenged measure limited to the request submitted alternatively by the Sicily Regional Government, deeming that the Councillor Office's right cannot be the object to any action for protection of possession pursuant to art. 823, paragraph 2, of the Italian Civil Code, since it constitute a right of claim rather than a right in rem, and ordered the costs to be offset between the parties.

The lawsuit to oppose the execution and the tax bill as an enforceable act pursuant to art. 615 of the Italian Code of Criminal Procedure before the Court of Siena, which was filed there on 21 November 2022 (RG 2737/2022) also for the purpose of obtaining the suspension of the enforceability of the act, was instead concluded with a ruling of 13 December 2023 that rejected the Bank's opposition, sentencing it to pay the costs of EUR 91,595.00, for which a possible appeal against the ruling is currently being assessed.

The other actions undertaken by the Bank to respond to the credit claim of the Revenue Agency/Sicily Collection – and precisely the application before the Court of Auditors on 21 November 2022 pursuant to art. 172 par. 1 letter d) to declare null and void the actions carried out for the recovery of the amounts as well as the petition of 16 November 2022 pursuant to Law 228/2012 to obtain the suspension of the collection of the amount brought by the tax bill – were unsuccessful and therefore, on 27 January 2023, the payment of the amount of EUR 74 mln was ordered. The steps necessary to recover the afore-mentioned credit of about EUR 68.6 mln from ADER, to which the Bank is entitled, as the sole successor of Riscossione Sicilia, are underway.

Banca Monte dei Paschi di Siena S.p.A. vs. Nuova Idea

With a writ of summons notified on 21 December 2021, Nuova Idea S.r.l. summoned the Bank before the Court of Caltanissetta in order to have it declare that it was obliged to compensate all the damages, financial and non-financial, suffered by the company as a consequence of the protest of a bill of EUR 2,947 domiciled at the Caltanissetta branch, which according to the plaintiff's prospect would have been raised due to the Bank's exclusive acts and negligence.



The plaintiff argues that the illegitimate protest constituted the only causation of a chain of events described in the writ of summons which resulted in the sharp reduction of its equity investment in a Temporary Grouping of Companies that had been awarded a service contract with ASL Napoli 1 Centro, consequently requesting, principally, that the Bank was ordered to pay in its favour the amount of EUR 57.3 mln by way of loss of earnings as well as an amount of EUR 2.8 mln by way of loss of profit, and thus a total of EUR 60.1 mln, in addition to compensation for damage to the corporate image and commercial reputation to be paid on an equitable basis.

The first appearance hearing, indicated in the summons as 29 April 2022, was postponed to 4 May 2022. The Bank promptly appeared, stating the correctness of the behaviour taken when the protest was raised and the absence of any causal link between the Bank's actions and the alleged damage. The Judge, having withdrawn the reservation on the preliminary enquiries made by the parties at the hearing of 29 March 2023, admitted evidence brought by witness testimony. By order of 15 July 2023, the Judge ordered a confrontation between witnesses as per the Bank's request, in consideration of their conflicting statements made at the hearing of 19 May 2023, setting a new hearing for this purpose on 15 September 2023, then postponed to 20 October 2023. At the hearing on 20 October 2023, the witnesses in the confrontation confirmed their conflicting versions of the events that occurred. The case was adjourned to a written hearing scheduled for 13 December 2023, the date on which the judge ordered a further confrontation between the witnesses, setting the next hearing for 7 February 2024, then postponed to 28 February, in order to obtain a final clarification.

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

The company EUR S.p.A. sued the former subsidiary MPS Capital Services Banca per le Imprese S.p.A. (hereinafter MPSCS) before the Court of Rome, together with three other lending banks, primarily in order to obtain a declaration of invalidity or, alternatively, the cancellation and/or ineffectiveness of the following contracts: 1) Interest rate swap (IRS) concluded on 24 April 2009; 2) IRS of 29 July 2019; 3) the Novation Confirmation of 15 July 2010, with which the IRS sub 2 was transferred from Eur Congressi Spa to Eur Spa; 4) the close out contract dated 29 July 2010 relating to IRS sub 1; 5) the Termination Agreement of 18 December 2015 relating to IRS sub 2. Again primarily, the plaintiff seeks the condemnation of the banks in the pool, jointly and severally, by way of restitution of the undue payment and compensation for pre-contractual and/or contractual and/or non-contractual damage, to the payment of approx. EUR 57.7 mln representing the relief sought as indicated by the plaintiff.

Since this amount relates to all the derivatives concluded by the 4 banks of the pool with EUR S.p.A., it should be noted that in the unlikely event of losing, the Bank, having been sentenced to pay the compensation, will be entitled to share the amount paid with the other banks in the pool in proportion to the quota in the loan, which for MPSCS was 12.61%.

The former subsidiary MPSCS appeared in court to have the full validity of its actions recognised and to request the rejection of the plaintiff's claims. In the deed of appearance and reply, it objected *in limine litis* the lack of jurisdiction of the court, given that the contracts regulating derivative operations with EUR S.p.A. consisted of ISDA Master Agreements governed by English law and subject to the jurisdiction of the Anglo-Saxon courts. The existence of the jurisdiction of the Italian court, according to the plaintiff, is due to the link between the IRSs and the financing contracts, which are governed precisely by Italian law, as well as to the public nature of EUR S.p.A. "as a company wholly owned by public institutions".

On 21 April 2023, the Court of Rome, rejecting the claims made by EUR, issued the decision in which: 1) it declared the lack of jurisdiction of the Italian Court in favour of the UK Court; 2) it declared that the objection of *lis pendens* ceased to obtain, alternatively, by the defendant Banks pursuant to art. 7, paragraph 1 of Italian Law no. 218 of 31 May 1995; 3) it ordered that legal costs be fully offset between the parties.

On 5 December 2023, EUR notified the appeal against the first instance judgement, challenging the decision of the Court to refer the case to the jurisdiction of the English court and re-proposing in substance all the claims and arguments put forward in the first instance, thus soliciting a different decision from the Court of Appeal of Rome. The Bank will enter the related appearance in court together with the other defendant Banks.

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

In February 2020, the Italtrading receiver sued the former subsidiary MPS Leasing & Factoring, as civilly liable for the damage pursuant to art. 2049 of the Italian Civil Code caused through a former employee, consisting of the irregular recognition in the financial statements of lower payables to the banking system and at the same time of lower receivables from subsidiaries and some customers. This is in violation of the provisions of art. 2423 of the Italian Civil Code, resulting in a concealment of the loss of share capital and, therefore, an aggravation of the insolvency. The claim for damages was quantified at EUR 132.8 mln.



During the lawsuit, in which the former subsidiary appeared before the court, following the conclusions of the insolvency proceedings, the claim was reduced to EUR 63 mln with the request for a provisional payment of EUR 6 mln.

With ruling of 19 May 2023, the Court of Milan acquitted the former employee of the charges against him, with consequent release effect for Banca MPS, which had taken over by virtue of incorporation from MPS I&F. Appeal proceedings are pending before the Court of Appeal of Milan, filed last October by the Italtrading receiver.

Banca Monte dei Paschi di Siena S.p.A. vs. Privilege Yard S.p.A. (in bankruptcy) - Appeal

With ruling no. 14832/2022 of 4 October 2022, the Court of Rome ascertained the liability of various credit institutions, including the former subsidiary MPSCS, defendants jointly and severally for complicity pursuant to art. 2055 of the Italian Civil Code in the misadministration by the directors of Privilege Yard S.p.A. pursuant to art. 2393 of the Italian Civil Code and consequently ordered them to pay as compensation for the damage caused to the assets of Privilege Yard S.p.A. an amount, quantifiable by way of application of the net equity criterion, equal to EUR 57.1 mln, in addition to legal costs and expenses.

In agreement with the other banks, which were originally part of the pool, the decision was to proceed with the spontaneous payment, although subject to repetition at the outcome of the appeal, by paying in the agreed amount of one fifth, for each bank, of the sentenced amount plus costs, fees and expenses.

With the officer of the other convicted Banks and in synergy with its own decision-making bodies, on 21 December 2022 MPSCS, through its legal counsel, filed an appeal and entered the case in the register, retracing in the appeal all the points of the first instance ruling that are allegedly flawed, both in terms of the grounds and in terms of the correct application of the rules invoked thereby in support of the conviction.

All the Banks autonomously filed an appeal. The appeals were all joined with the main appeal brought by Banco BPM, RG no. 6517/2022 and assigned to the second specialised section on corporate matters of the Court of Appeal of Rome with the first appearance hearing in February 2024 where it was decided to postpone the hearing for clarification of the conclusions to November 2025.

Several proposals were submitted by third parties to the Banks for the transfer of the dispute, some formalised, others only verbal to explore the Banks' possible willingness to settle. Finally, the receiver would seem to have an interest in directly settling the case for the closure of the bankruptcy proceedings.

Banca Monte dei Paschi di Siena S.p.A. vs. Barbero Metalli S.p.A.

The proceedings, with relief sought equal to EUR 37.5 mln, were brought by B.M. 124 S.R.L. – official assignee of the composition in bankruptcy pertaining to Barbero Metalli Spa in JV with BeCause - against the directors and auditors of the company, as well as the different credit institutions jointly and severally, for having contributed to the insolvency of the company through the predatory lending.

The thesis put forward by the plaintiff is based on the alleged joint and several liability of the banks with the Board of Directors of Barbero Metalli S.p.A. for having contributed to the commission of acts of misadministration, to the artificial survival of the company, to the concealment of the irreversibility of the financial difficulties and to the worsening thereof.

The plaintiff asks for the directors, auditors and banks to be found jointly and severally liable for approximately EUR 37.5 mln as additional loss incurred by the company, and in the alternative liable for EUR 22.9 mln, as the value of individual detrimental transactions carried out by the company and expressly listed in the summons (the contribution indicated for the Bank would consist in having advanced EUR 8.8 mln to the company since 2009).

Having completed the mediation process, which was in actual fact never formally opened, and having filed the parties' written submissions, the judge ordered a postponement to 21 December 2022 for the hearing for discussion, which was ultimately postponed to the hearing of 3 May 2023. At that hearing, the Judge invited the plaintiff to spontaneously produce, by 29 September 2023, all the transactions concluded even before the commencement of proceedings relating to the matter of the dispute, adjourning the hearing to 12 October 2023 to verify fulfilment of the aforementioned order. Given the addition of the parties to the action necessary for the purposes of the exclusion rulings, the judge adjourned the case to the hearing of 23 January 2024 for discussion of the preliminary motions. The hearing was merely interlocutory and the Judge reserved its decision on the termination of the proceedings due to novation with respect to parties who, having reached compromise settlements, no longer have an interest in the continuation of the proceedings. The date for the next hearing has not been set.



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

In June 2020, a summons was served by the bankruptcy receiver of Isoldi Holding S.p.A. in liquidation against several credit institutions (including the Bank) on the assumption of joint and several liability of the banks with the board of directors of Isoldi Holding S.p.A. in liquidation for having contributed to the commission of acts disposing of the company's assets, to the artificial survival of the company despite its insolvency and to the worsening thereof, with a request for compensation quantified at EUR 48.5. The acts cited are identified as:

- purchase of shares and the related option rights of the company Aedes S.p.a., carried out at prejudicial conditions compared to market prices with an increase in indebtedness, in a position of equity and financial instability of the bankrupt company;
- access to a reorganisation plan pursuant to art. 67, paragraph 3, letter d), of the Bankruptcy Law, signed on 9 May 2011 by 7 banks (the Bank for 19%) and Isoldi Holding through the establishment of two new companies for the transfer of business units bound to the satisfaction of debtors with collaterals (Newco Isoldi and I.R.O.) and the disbursement of new funding for a total of EUR 17.6 mln secured by mortgages in second grade and sureties of Isoldi Holding.

The first hearing was held on 16 February 2023 with the judge reserving judgment on the various preliminary claims brought by the parties without granting the six-month postponement requested by the Receivers for the definition of an insolvency agreement and subsequent continuation of proceedings by the insolvent party. Proceedings were adjourned to 21 September 2023 for the production of evidence. On 9 January 2024, the Judge withdrew his reservation, recognising, on a preliminary basis, the assignee's legitimacy to continue the proceedings initiated by the receivers and approving the court-appointed expert in relation to the two macro transactions referred to in the summons.

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

The lawsuit, with relief sought amounting to EUR 42.2 mln, was brought against different credit institutions jointly and severally alleged to have contributed to the insolvency of the company through predatory lending.

Notably, in regard to the position of the former subsidiary MPSCS, the claim refers to the connivance with the acts of misadministration of the directors, who made use of credit at a time when the state of crisis of the company was no longer remediable, not in view of a corporate restructuring, but for the sole purpose of continuing the business activity and management, without letting this state of crisis become public, thus delaying the declaration of insolvency, and causing damage to the company and its creditors by granting mortgage loan on 4 August 2011.

The plaintiff sought an order against the former subsidiary and the other banks, jointly and severally, or each of them for its part, to pay damages to the liquidator of the insolvent company, in the amount of approximately EUR 42.3 mln, or in the different amount, greater or lesser, that the Court will deem appropriate, also pursuant to art. 1226 of the Italian Civil Code, as well as interest and revaluation.

Given the content of the claims, the share of the risk pertaining to the former subsidiary MPSCS, jointly and severally summoned with the other defendants to pay the entire amount requested in relief, has not been quantified.

On 3 February 2022, the Judge lifted the reservation by postponing the case to the hearing of 31 October 2022 to produce items of evidence. The Receiver asked for the appointment of a court-appointed expert. At the hearing, the Receivers insisted on the request for an economic-financial and accounting court-appointed expert report and the request for the issuance of the order to produce evidence concerning the investigation carried out by the banks prior to the granting of the loans to Parrini. MPSCS contested the opposing claims, pointing out the fact-finding nature thereof, insofar as they were intended to make up for the lack of evidence of the claim. The Judge reserved decision and the appointed lawyers will notify the measure that will be issued on lifting the reservation.

Banca Monte dei Paschi di Siena S.p.A./ Le Camelie S.R.L. dispute

The lawsuit was brought by the company "LE CAMELIE S.R.L." and by Mr Giacomo Polito, as third-party mortgage lender, against Banca Monte dei Paschi di Siena Spa, the former subsidiary MPS Capital Services Spa together with Siena NPL 2018, for alleged simulation of the allocation of the amounts disbursed for mortgage loans, for predatory lending and for nullity of contracts due to unlawful grounds thereof.

The transactions involved are three mortgage loans granted by the MPS Group in 2006, 2007 and 2010 for EUR 10 mln, EUR 2.5 mln and EUR 4.3 mln, respectively.



The compensation claim amounts to a total of EUR 45.2 mln, a value corresponding to the sum of the values attributed by the plaintiffs to their foreclosed assets in the enforcement proceedings initiated in relation to the loans in question.

The first appearance hearing took place on 14 October 2022 and was postponed to 31 January 2023 to produce evidence. On that date, the Judge deemed the case ripe for the decision and set the hearing of 6 February 2024 for the clarification of the conclusions. The proceedings were postponed to 24 May 2024, pursuant to art. 309 of the Italian Code of Civil Procedure, for negotiations on a settlement with the assignee.

Banca Monte dei Paschi di Siena SpA vs. Società Italiana per Condotte D'Acqua S.p.A. under extraordinary administrative proceedings

By means of a writ of summons served on the Bank on 23 December 2022, Società Italiana per Condotte D'Acqua S.p.A. under extraordinary administrative proceedings brought an action for damages (case ref. no. 960/2023) against the credit institutions in conjunction with the factoring companies (32 counterparties), the independent auditors, the members of the Managing Board and of the Supervisory Board of the company in bonis, for having contributed - through the use and granting of credit - to the commission of acts of misadministration that caused (or contributed to causing) serious damage to the company and to the entire creditors' class. The damage is quantified:

- jointly and severally among all defendants in the amount of EUR 389.3 mln;
- alternatively EUR 322.0 mln (increase in insolvency liabilities);
- or alternatively in the amount of EUR 39.5 mln with reference to individual transactions (referring to associates).

With a second writ of summons served on 19 April 2023, Società Italiana per Condotte D'Acqua S.p.A. under extraordinary administrative proceedings also sued Cassa Depositi e Prestiti S.p.A. and SACE S.p.A. (case ref. no. 24431/2023) for the same factual events, in addition to all the parties already sued in the legal proceedings previously commenced.

Given the obvious reasons for a connection (part-subjective and part-objective), in the same writ of summons the Judge was asked to order an immediate preliminary joinder of the cases to avoid duplicate decisions, and of course to expedite and economize the lawsuit.

The hearing for the appearance of the parties was held on 25 September 2023, with the next hearing scheduled for 22 April 2024.

2. Employment law disputes

As at 31 December 2023, tax disputes were pending for which the total relief sought, where quantified, was equal to EUR 62.6 mln. In particular:

- o approx. EUR 46.5 mln as relief sought for which there is a “likely” risk of disbursing financial resources, for which provisions of EUR 39.5 mln have been made;
- o approx. EUR 16,1 mln as relief sought for disputes for which there is a “possible” risk of disbursing financial resources.

Below is the summary information on the most significant disputes pending as at 31 December 2023.

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

The transaction for the sale of the “back office” business unit of Banca MPS to Fruendo, dating back to 1.1.2014 for 1064 resources, was declared unlawful in all levels of proceedings and resulted in the reinstatement with the Bank of 452 plaintiffs (1.4.2020), at the same time seconded to the company.

It should also be noted that in the case of the transfer of a branch of business deemed unlawful, the Court of Cassation, with reference to the salary obligation incumbent on the transferor, has ruled in a manner that differs from the settled opinion of the Court of Cassation itself. In fact, numerous rulings, issued starting from July 2019, stated that, in the event the transfer of the employment relationship, in the broader context of the transfer of business units, is declared unlawful, the transferor employer, who does not reinstate the employees, is still liable to fulfil the remuneration obligations in addition to those fulfilled by the transferee employer, since the principle that the payment made by the latter would discharge the former is considered not applicable to the case in question.



Based on this change in case law (“double remuneration”), as at the reporting date of these Financial Statements, 196 workers involved in the transfer of the business unit and recipient of the above rulings in their favour, have sued the Bank in order to request the remuneration allegedly due. These actions were lodged before the Courts of Siena, Florence, Mantua and Rome, with hearings currently scheduled between February 2024 and March 2025.

The progress of litigation, in its various stages, has led to negotiations for the settlement of disputes that have resulted in 259 settlements to date.

In addition, writs of summons were served by 2 workers requesting the Bank to return the portion of social security contributions charged to them in the spontaneous execution of the unfavourable rulings on so-called “double remuneration”. By appeals filed on 26 September 2022, the Bank contested these claims. On 14 February 2024, the 2 positions were settled before the Labour Division of the Court of Siena.

With reference to the “unlawful contract” line of the suit, a first group of appeals by Fruendo workers (52 then reduced to 32 following waivers/settlements) was rejected at first instance by the Court of Siena on 25 January 2019. This ruling was challenged by 16 workers before the Court of Appeal of Florence Labour Law Division which, on the other hand, ascertained the illegitimacy of the contract, ordering the reinstatement in service of 14 workers (as for 2 workers, the matter of the dispute was declared to have ceased to exist following waivers/conciliations), which was implemented with effect from 1 March 2022. The case is currently pending before the Court of Cassation, with a hearing set for 20 March 2024.

With regard to the two disputes brought before the Court of Padua by a total of 13 workers, they were closed with a settlement on 24 October 2022.

Further actions were filed to ascertain the unlawfulness of the contract by 37 workers of Fruendo, all of which were brought before the Court of Siena – Labour Law Division:

- for two groups of applicants (18 in total) who have filed collective disputes, rulings in favour of the Bank were issued in first instance by the Court of Siena Labour Law Division., which were challenged before the Court of Appeal of Florence: next hearing 27 February 2024;
- for another group of applicants (18 in total), a first instance decision is currently pending before the Court of Siena, Labour Law Division, next hearing date 14 February 2025;
- for the only plaintiff who filed an individual case, the Court of Siena Labour Division., on 20 October 2023, issued a ruling in his favour; the Bank is carrying out the assessments necessary for the execution of the ruling

3. Tax disputes

As at 31 December 2023, tax disputes were pending for which the total relief sought, where quantified, was equal to approximately EUR 42.2 mln. In particular:

- o approx. EUR 17.7 mln as relief sought regarding disputes for which there is a “likely” risk of disbursing financial resources, for which provisions of approx. EUR 17.3 mln have been made;
- o approx. EUR 24,5 mln as relief sought for disputes for which there is a “possible” risk of disbursing of financial resources.

Risk linked to representations and warranties given in the transfer and demerger of non-performing loans

In execution of the 2017-2021 Restructuring Plan, the Group has launched an important destocking plan for non-performing loans with the aim of significantly reducing its NPE ratio. As part of these transactions, indemnities are envisaged to be paid to the transferee counterparties of non-performing loan portfolios if the representations and warranties (R&W) issued are not true.

In this regard, note the securitisation transaction carried out by the Group in December 2017 in favour of Siena NPL which resulted in the cancellation of bad loans for a gross exposure of over EUR 22 bn, whose R&W expired on 31 July 2021. At the reporting date of these financial statements, almost all claims received by the deadline were reviewed, of which a small percentage were assessed as well-founded and were paid.

Also of note are: (i) the “Morgana” transaction in the 2019 financial year, which involved EUR 663 mln of gross exposure of lease secured non-performing loans, whose representations and warranties were due in October 2021 and for which, among the claims received and analysed, a small portion that was not yet paid was deemed to be well-founded; (ii) the “Hydra-M” demerger in 2020 concerning EUR 7.2 bn of gross non-performing loans whose R&W reached expiring on 1 December 2022 and for which all claims received were analysed and paid when deemed justified; (iii) the “Fantino” sale transaction for the year 2022 concerning EUR 0.9 bn of non-performing loans, whose representations and warranties, with the exception of those given in favour of the transferee Intrum expired on 28 October 2023, shall expire within the first half of 2024 (Amco Spa and Illimity Spa). In relation to this sale,



as at 31 December 2023 all the requests received were analysed and, where deemed justified, paid; (iv) the “Mugello” sale transaction in 2023 concerning EUR 0.2 bn of non-performing loans, whose representations and warranties will expire in the first quarter of 2025; to date, no requests for compensation have been notified.

The total relief sought of these transactions as at 31 December 2023 amounted to EUR 306.9 mln, of which around EUR 95.5 mln classified as “likely” risk of disbursing financial resources and around EUR 211.4 mln at “possible” risk of disbursement.

For all the aforementioned transactions, a risk remains limited to that part of the claims already analysed and considered non-indemnifiable by the Bank in addition, where present, to the residual component of claims to be analysed.

In general, the risk provisions for these transactions, amounted to EUR 132.5 mln as of 31 December 2023, are also determined through the use of statistical techniques to take into account the overall expected risk, if the claims are not fully analysed and/or the expiry date has not yet matured.

Compensation for transactions in diamonds

With reference to the “diamonds” case and the allegations of self-laundering, the Public Prosecutor’s Office at the Court of Siena, as part of the criminal proceedings, has issued a request for dismissal on 12 September 2022 versus the natural persons (4 former executive managers and the only executive manager still employed), who had been investigated for self-money laundering and has also issued a decree for dismissal with regard to the Bank as a party bearing administrative liability and has also ordered the revocation of the preventive seizure issued in relation to the offence of self- money laundering pursuant to Italian Legislative Decree no. 231/2001, for the amount of EUR 0.2 million.

The dismissal with respect to the Bank was transmitted to the Attorney General of the Court of Appeal of Florence, which endorsed it on 16 November 2022, while the Preliminary Investigations Judge issued a decree of dismissal against the natural persons on 5 October 2022.

With regard to the criminal proceedings pending before the Court of Rome, listed under no. 44268/21 concerning the offences of aggravated fraud, against only natural persons, including 5 former members of the Bank, and 8 employees, the first preliminary hearing was held and then postponed to 30 January 2024 for issues concerning notification defects against some defendants.

At that last hearing, the Preliminary Hearing Judge acknowledged the regularity of the notifications and only one offended party filed a civil action against the representatives of Diamond Private Investment S.p.A. in liquidation (“DPI”). The next hearing is scheduled for 12 March 2024.

About the same case, additional criminal proceedings for the offences of aggravated fraud, self- money laundering and hindering the exercise of the functions of Public Supervisory Authorities were commenced before the Public Prosecutor’s Office at the Court of Milan. On 28 September 2021 the Public Prosecutor made a request for committal for trial, against seven former executive managers (of which five in the main line of litigation) and the Chief Executive Officer and pro tempore General Manager of the Bank.

At the hearing of 22 June 2023, the issue of lack of territorial jurisdiction was discussed and at the hearing of 10 July 2023, the Preliminary Hearing Judge upheld the contested procedural issues raised by issuing three judgements of lack of jurisdiction: (i) in favour of the Roman Judicial Authority for the fraudulent claims against the representatives of DPI and the Bank; (ii) in favour of the Siena Judicial Authority for the hypothesis of self- money laundering and obstruction to the functions of the Public Supervisory Authorities challenged against the Bank’s managers and (iii) in favour of the Verona Judicial Authority for the alleged offences concerning Banco BPM.

With regard to the crime of self- money laundering and obstructing the functions of the Public Supervisory Authorities, on 6 October 2023 the file was sent to the Public Prosecutor’s Office at the Court of Siena, and on 20 November 2023, the Public Prosecutor of Siena filed a request for dismissal.

In these proceedings, the Bank is not involved as party with administrative liability pursuant to Italian Legislative Decree 231/2001.

In 2018, the Board of Directors resolved to pass a compensation transaction that provides for the payment of a fee to customers up of an amount equal to the latter had originally paid to DPI for the purchase of stones, with the simultaneous transfer of the same to the Bank and the completion of the transaction.



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 returned.

As at 31 December 2023, the transactions completed represented 92.3% of the total volume of diamond offers reported by the Bank. Residual provisions for risks and charges recognised against the relief initiative were equal to EUR 2.2 mln at 31 December 2023. As at the same date, the stones returned were recognised for a total value of EUR 62.6 mln.

Financial risks of investment services

Foreword

The following section on financial risks of investment services was written as part of the “Operational Risk” section in line with the compulsory framework for preparation of the Notes to the Financial Statements, even though this subject presents specific characteristics and involves organisational levels of authority that are not directly traceable to operational risk management.

Wealth risk management process and methods

Please refer to Part E of the Notes to the Consolidated Financial Statements.

Consultancy services offered

The strategic choice of the Bank is to systematically combine the placement of financial products with advisory so as to ensure the highest level of protection for the investor and, at the same time, enhance the role played by relationship managers. Again, with a view to protecting customers, the obligation to verify appropriateness has also been extended to the trading activities on the secondary market of the certificates issued by the Bank.

The Bank offers two types of advisory services:

- a “basic” advisory, aimed at verifying the suitability of a single specific investment recommendation, or several investment transactions or several disinvestment transactions in relation to the risk of the customer’s investment portfolio as a whole. In this regard, the adequacy model adopts a multivariate control approach to the individual risk factors, taking the risk of the customer’s portfolio, including the recommended investment product(s), as a reference;
- an “advanced” advisory, aimed at verifying the suitability of the overall set of advised transactions based on a range of investment/disinvestment transactions targeted at the construction of one or more portfolios of advanced advisory, consistent with the respective investment objectives, in reference with an optimal asset allocation that aims at obtaining maximised future returns, based on the investment portfolio risk given the customer’s risk profile. In this regard, the adequacy model adopts a multivariate control approach to the individual risk factors, taking the risk of the customer’s portfolio, including the recommended investment product(s), as reference.

Wealth risk management activities cover the entire distribution perimeter of the network of Group branches, the investment services operated by Banca Widiba.

For further details, please refer to “Operational risk” 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

The Bank pursues strategic objectives for the entire Group focused on the quantitative and qualitative strengthening of capital, on the structural rebalancing of liquidity and on the achievement of sustainable levels of profitability, compatible with the risks assumed; through the close interaction between the processes of Multi-year Planning and Budget, Governance of the Risk Appetite Framework (RAF) and Capital Adequacy Assessment (ICAAP), a risk appetite is defined aimed at guaranteeing operational stability and at the same time quantifying resources useful for financing growth strategies.

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 supervisory body.

For these purposes, as part of the RAF, the target capitalisation levels are estimated annually, verifying, on the basis of the ICAAP process, that the capital adequacy is sufficient to guarantee compliance with the minimum requirements approved by the Board of Directors. Capital adequacy is also assessed prospectively and over a period of several years, under both normal and stress conditions, taking into account both the regulatory perspective, focused on compliance with operational capital requirements aimed at guarding against risks not covered by regulatory requirements, as well as further prudential assessments decided by the strategic supervision body.

The objective of capital adequacy is primarily pursued through the generation of positive income, as well as through the optimisation of risk-weighted assets; in addition, compliance with capital requirements is also guaranteed through specific actions to support total own funds, such as the issue of subordinated bonds.

Capital management is understood as a dynamic activity aimed at constantly seeking to optimise the capital components (ordinary shares and other capital instruments) in order to achieve objectives and implement the identified strategies. In this respect, the Parent Company carries out coordination and guidance activities over the Banks and Companies belonging to the Group, monitoring the management of assets in each legal entity and issuing the appropriate guidelines.

The Group uses methodologies for the correct measurement of profitability, based on risk, by adopting these indicators also within the RAF framework, with related monitoring and management of the total expected risk/return profile.

In this context, the RAPM (Risk Adjusted Performance Measure) metrics are also used to make the appropriate assessments and provide the necessary indications, to the functions of the Parent Company and to the business units, for a timely recognition of the actual absorption of capital resources allocated and for the direction of future distribution choices; the capital is allocated to the business units on the basis of the expected development, return and estimated risk levels and is constantly monitored during the year to verify the achievement of the objectives and compliance with the minimum requirements defined internally.

The definitions of equity applied are those used in Supervisory Regulations: Common Equity Tier 1, Tier 1 and Own Funds. In addition, as part of the RAPM metrics, additional definitions of capital are used, such as:

- the Invested Capital, i.e. the amount of Shareholders' equity needed to achieve Tier 1 Capital values, whether determined ex ante as target levels or realised ex post;
- the Allocated Capital corresponds to the Total Internal Capital Requirement defined in the ICAAP;
- the capital absorbed, which corresponds to the capital actually at risk and is determined in proportion to the risk weighted assets (RWA) observed in the final balance.



B. Quantitative Information

B.1 Shareholders' Equity: breakdown

Net equity items	Total 31 12 2023	Total 31 12 2022
1.Shareholders' equity	7,453,451	7,453,451
2. Share premium	-	-
3. Reserves	146,613	(221,406)
- retained earnings	(226,598)	(98,919)
a) Legal reserves	-	-
b) statutory reserve	-	-
c) Treasury shares	-	-
d) others	(226,598)	(98,919)
- others	373,211	(122,487)
4. Equity instruments	-	-
5. Treasury shares (-)	-	-
6. Valuation reserves	20,069	(4,151)
- Equity instruments measured at fair value through other comprehensive income	(14,112)	(10,674)
- Financial assets (other than equity instruments) measured at fair value through other comprehensive income	(60,145)	(120,485)
- Tangible assets	114,756	134,579
- Cash flow hedges	17,794	22,855
- Exchange difference	2,984	4,009
- Non-current assets and group of assets held for sale	(2,409)	6
- Financial liabilities measured at fair value through profit and loss (changes in own credit worthiness)	8,369	14,153
- Actuarial gains (losses) on defined benefit plans	(47,168)	(48,594)
7. Profit (loss) for the year	2,021,525	(135,782)
Net equity	9,641,658	7,092,112



B.2 Valuation reserves for financial assets measured at fair value through other comprehensive income: breakdown

Asset/Amount	Total 31 12 2023		Total 31 12 2022	
	Positive reserve	Negative reserve	Positive reserve	Negative reserve
1. Debt securities	10,065	(70,210)	2,404	(122,889)
2. Equity instruments	7,864	(21,976)	13,772	(24,446)
4. Loans	-	-	-	-
Total	17,929	(92,186)	16,176	(147,335)

B.3 Valuation reserves for financial assets measured at fair value through other comprehensive income: annual changes

	31 12 2023		
	Debt securities	Equity instruments	Loans
1. Opening balance	(120,484)	(10,674)	-
2. Increases	78,055	5,410	-
2.1 Increases in fair value	66,953	2,557	-
2.2 Net losses (recoveries) on impairment	-	X	-
2.3 Reversal to profit and loss of negative reserves	11,093	X	-
2.4 Transfers to other component of equity (equity instruments)	-	2,837	-
2.5 Other increases	9	16	-
3. Decreases	2,457	8,667	-
3.1 Decreases in fair value	1,908	255	-
3.2 Impairment provisions	-	-	-
3.3 Reversal to profit and loss of positive reserves: following disposal	490	X	-
3.4 Transfers to other component of equity	-	8,189	-
3.5 Other decreases	59	223	-
4. Closing balance	(44,886)	(13,931)	-

**B.4 Valuation reserves for defined benefit plans: annual changes**

	Internal funds	External funds	Provisions for employees severance pay	31 12 2023
Opening balance	(34,202)	(223)	(14,169)	(48,594)
Remeasurement of net defined benefit liability (asset):	(16)	6,230	(1,430)	4,784
Return on plan assets excluding interests	-	(15,643)	-	(15,643)
Actuarial gains (losses) arising from changes in demographic assumptions	59	7,164	1	7,224
Actuarial gains (losses) arising from experience adjustments	(133)	9,088	198	9,153
Actuarial gains (losses) arising from changes in financial assumptions	58	372	(1,629)	(1,199)
Changes in effect of limiting net defined benefit asset to asset ceiling	-	5,249	-	5,249
Gains (losses) on settlements	-	-	-	-
Others	34,147	(36,701)	(803)	(3,357)
Closing balance	(71)	(30,694)	(16,402)	(47,167)

The merger of no. 6 internal funds into section B of the MPS Pension Fund, specifically described in section 10.5 “Defined benefit company pension funds” of Part B of these Notes to the financial statements, resulted in a transfer of valuation reserves from “internal funds” to “external funds” of about EUR 34 mln, which was recognised in the line “Other changes”. The transaction also resulted in a positive effect, net of the related tax effect, of approximately EUR 6 mln recognised under the column “External provisions”, line “Revaluation of net defined benefit liability/asset”.

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 financial period

1.1 Business combinations

1.1.1 Transactions included in the scope of application of the international accounting standard IFRS 3 “Business combinations”

No business combinations, as defined by IFRS 3, were carried out in 2023.

Business combinations under common control

On 24 April 2023 and 29 May 2023, the mergers by incorporation into the Bank of the two wholly-owned subsidiaries, MPS Leasing & Factoring S.p.A. and MPS Capital Services Banca per le Imprese S.p.A., were finalised. Both transactions took effect for accounting and tax purposes from 1 January 2023 and took place according to the simplified form envisaged for wholly-owned companies. These transactions are part of the broader process of streamlining the corporate and operational structure of the Group it belongs to, in view of simplifying the organisation, optimising and enhancing resources and reducing costs, in line with the 2022-2026 MPS Group Business Plan.

The above transactions do not fall within the scope of IFRS 3 and, based on the provisions of Bank of Italy Circular 262/2005, are conventionally reported in this section. In the absence of a reference accounting standard, transactions “under common control” are accounted for in the Financial Statements of Group companies by adopting the principle of continuity of accounting figures, referring to the figures resulting from the Group’s Consolidated Financial Statements at the date of transfer of assets. The transactions had no impact on the Group’s financial and economic position. For more information, please refer to the section on significant events during the financial year in the Consolidated Report on Operations.

Section 2 - Business combinations completed after the financial period

There are no transactions to report.

Section 3 – Retrospective adjustments

No retrospective adjustments are reported.



Part H – Related-party transactions

1 Compensation of key management personnel	836
2. Related-party transactions	836



1 Compensation of key management personnel

Items/Amounts	Total 31 12 2023	Total 31 12 2022
Short-term benefits	6,156	5,817
Termination benefits	-	194
Other compensation	1,961	-
Total compensation paid to key management personnel	8,117	6,011

In compliance with the instructions provided by accounting standard IAS 24 and in light of the current organisational structure, the Bank has opted for the disclosure scope to include not only the Directors, Statutory Auditors, the General Manager and the Deputy General Managers, but also other Key Management Personnel.

The information regarding remuneration policies is contained in the ‘Remuneration Report pursuant to art. 123-ter of the Consolidated Law on Finance’, available on the Bank’s web site, which contains the following data:

- a detailed breakdown of compensation paid to the Administration and Control Bodies, General Managers and, in aggregate form, to Key Management Personnel;
- quantitative information on the remuneration of “Identified Staff”;
- 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 Bodies, the General Managers and other Key Management Personnel.

There were no terminations of employment of executives in the financial year 2023.

2. Related-party transactions

In compliance with the provisions of Consob Resolution no. 17221, 12 March 2010, last updated with the amendments made by Consob resolution no. 21624, 10 December 2020, which came into force on 1 July 2021 (hereinafter the “Consob Regulations”), as well as art. 53 Consolidated Law on Banking (TUB) and its implementing provisions (Bank of Italy Circular no. 285/2013, Part Three, Chapter 11 “Risk assets and conflicts of interest with respect to associated parties”), the “Committee for Related-party Transactions” was established, composed of between three and five independent directors, carrying out the functions envisaged by the By-Laws and the current legislative and regulatory provisions on transactions with related and associated parties.

The “*Group Directive concerning Management of regulatory obligations on related parties, associated parties and obligations of bank representatives*” (hereinafter the “Group Directive”), accompanied by the “*Group Regulation concerning Management of regulatory obligations on related parties, associated parties and obligations of bank representatives*” (hereinafter the “Group Regulations”), approved by the Bank’s Board of Directors, with the prior favourable opinions of the Committee for Related Party Transactions and the Board of Statutory Auditors, contains the provisions and internal procedures on related parties, aligned with the provisions of the Consob Regulation in force as of 1 July 2021, which introduced, inter alia, a new definition of a related party and the need to define thresholds of small amounts differentiated at least in consideration of the nature of the counterparty. The Group Directive was most recently updated on 27 January 2022 for the purpose of implementing the additional obligations relating to loans granted to relevant parties pursuant to art. 88 of Directive 2013/36/EU.

The Group Directive defines the organisational model adopted by the Bank and the companies of the Group (principles and responsibilities) for the management process of the provisions applicable to related parties, associated parties and obligations of the bank representatives, and in particular, governs the principles and rules for the control of risks arising from situations of possible conflicts of interest with some subjects close to the decision making centres of the Bank.

Within the Group Directive, the following is also defined:

- the formulation of the responsibilities assigned within the Bank and to the Group (tasks and responsibilities of the top management bodies and corporate functions of the Bank and Subsidiaries);
- the scope of the related parties, associated parties (“Group Scope”) and other subjects in a potential conflict of interest;
- the criteria for the identification of transactions, level of relevance of the transactions;



- the decision-making procedures and exemption cases;
- the internal policies in the area of control.

For the purpose of the Group Directive, significance is attributed to the transactions carried out with the subjects operating within the Group Scope which involve the performance of risk activities, the transfer of resources, services and obligations, regardless of the requirement of a consideration. With regard to the type of transactions, these are classified in detail in the aforementioned Group Regulations, as:

- **“most significant transactions”**: transactions where at least one of the following relevance indicators, applicable according to the specific transaction, exceeds the 5% threshold (greater relevance threshold):
 - *countervalue significance indicator*: the ratio of the countervalue of the transaction to the total of the own funds resulting from the most recent published consolidated balance sheet;
 - *relevance index of the assets*: the ratio of the total assets of the entity to which the transaction refers, to the total assets of BMPS;
 - *relevance index of the liabilities*: the ratio of the total liabilities of the acquired entity to the total assets of BMPS;
- **“transactions of lesser significance”**: transactions for an amount greater than a small amount and up to the threshold of greater significance; in the context of transactions of lesser significance, transactions in which the amount exceeds EUR 100.0 mln and up to the threshold of greater significance (significance index of the equivalent value) are considered to be of lesser significance as a **“significant amount”**, or, in the case of acquisitions, mergers and demergers for an amount equal to or less than EUR 100.0 mln, the significance index of the assets and/or liabilities is equal to or greater than the ratio of EUR 100.0 mln and own funds at a consolidated level;
- **“transactions for a small amount”**: transactions for an amount equal to or less than EUR 250.0 thousand, in the event that the counterparty is a legal person; transactions for an amount equal to or less than EUR 100.0 thousand, in the event that the counterparty is a natural person.

The provisions and procedures applicable to transactions with related parties, in the versions in force at the time, are published on the website www.gruppompis.it in the section “Corporate Governance - Transactions with related parties”.

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 (TUB) 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 paragraph 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 transactions, include Italian government bonds recorded in the portfolios “Financial assets measured at fair value through other comprehensive income” for a nominal amount of EUR 1,746.4 mln and “Financial assets measured at fair value through profit or loss” for a nominal amount of EUR 1,632.8 mln as well as “Financial assets measured at amortised cost” for a nominal amount of EUR 7,181.6 mln.

The most significant transactions, in terms of amount, carried out by the Bank with related parties in 2023 are discussed below.

MEF related-party transactions

Transactions with SACE

On 31 January 2023, the Credit Committee of the Bank authorised a mixed credit facility in favour of its customers for a total of EUR 30.0 mln, usable for the issue of financial and commercial guarantees in Italy/abroad; the use of this credit facility is at least 50% backed by a guarantee issued by SACE S.p.A.

On 30 March 2023, the Board of Directors of the Bank, subject to opinion in favour from of the Related Party Transactions Committee, resolved to renew the framework resolution of greater significance (expired on 2 December 2022), with a reduction of the amount from EUR 1.0 bn to EUR 0.5 bn, concerning the Bank’s



operations with SACE S.p.A., relating to the issue of financial guarantees by SACE against credit facilities/loans granted by Banca MPS to companies as part of the “Green New Deal”, i.e. to pursue environmental objectives adequately supported by suitable projects for reducing pollution and the extent of polluting emissions and therefore at promoting eco-sustainable development (“DQSACEGREEN2023”). The DQSACEGREEN2023 is valid for a period of 12 months from the date of adoption of the resolution and operates in relation only to Banca MPS and not at Group level.

In the first half of 2023, a number of insurance policies confirming documentary credits were entered into with SACE S.p.A., also in execution of the “SACE 2022 Framework Resolution” described in the 2022 half-yearly report, to cover 50% of the risk of non-payment related to confirmation transactions of documentary credits in US dollars, entered into by its customers with foreign banks, for approximately USD 33.1 mln, USD 29.3 mln, USD 24.6 mln and USD 24.3 mln.

Furthermore, still in the first half of 2023, MPS Capital Services Banca per le Imprese S.p.A. (hereinafter “MPS Capital Services”), a company that later merged by incorporation into the Bank, resolved to conclude with SACE S.p.A.: (a) three transactions for the issue of financial guarantees as part of the “Green New Deal” for the amounts of EUR 20.0 mln, EUR 53.5 mln and EUR 14.1 mln, respectively, to cover 80%, 100% and 50% of the amount of loans granted to three corporate customers, and (b) three transactions for the issue of “SupportItalia” guarantees for amounts of EUR 16.0 mln, EUR 40.0 mln and EUR 13.5 mln, respectively, to cover 80%, 80% and 90% of the amount of loans granted to the three corporate customers.

On 5 September 2023, the Credit Committee of the Bank authorised the granting of credit lines backed by SACE S.p.A. guarantees to customers as described below: (i) credit line for a total of EUR 40.0 mln, usable for the issue of endorsement commitments mainly of a commercial nature, backed by a SACE S.p.A. guarantee for at least 50%, with an invitation on a best effort basis to a higher coverage of 70% upon reaching an unsecured limit of EUR 15.0 mln; (ii) unsecured loan for a total of EUR 10.0 mln, medium/long-term, with acquisition of a 90% SACE “SupportItalia” guarantee. In addition, on 12 September 2023, the Credit Committee resolved an amortising loan in favour of corporate customers up to a maximum amount of EUR 50.0 mln (and the related credit line to hedge interest rate risk of EUR 2.5 mln), with a duration of 8 years, with the acquisition of a SACE S.p.A. guarantee for at least 70%, to be allocated exclusively to support identified investments.

During the second half of 2023, the Bank resolved to conclude with SACE S.p.A., with effect respectively at the end of December 2023 and January 2024, three transactions for the issue of “SupportItalia” guarantees for an amount of EUR 20.0 mln, respectively, EUR 18.0 mln and EUR 12.6 mln, to cover 80% for the first transaction and 90% for the other two transactions, respectively, of the amount of loans granted to three corporate customers.

In addition, also during the second half of 2023, a number of insurance policies were finalised with SACE S.p.A., with coverage equal to 50% of the risk of non-payment, relating to confirmation transactions of documentary credits in US dollars, entered into by its customers with foreign banks, for a value of approximately USD 71.8 mln.

These transactions, finalised with SACE, fall within the scope of application of Consob Regulation no. 17221/2010, since SACE S.p.A. is a wholly-owned subsidiary of the MEF.

Transactions with WEBUILD

On 27 January 2023 and, subsequently, on 13 June 2023, the Credit Committee of the Bank authorised Banca MPS to comply with the waiver requests made by WEBUILD S.p.A., concerning certain contractual clauses governing the Revolving Credit Facility agreement, for EUR 70.0 mln, previously stipulated with this company.

On 7 November 2023, the Board of Directors of the Bank authorised in respect of WEBUILD S.p.A.: (i) the granting of a new Revolving Credit Facility (“RCF”) in the amount of EUR 60.0 mln (“Refinancing Facility”), as Banca MPS’s share in a new pool transaction, intended to refinance, in part, the RCF credit line maturing in 2024 and 2025 (ii) for another outstanding bilateral RCF of EUR 70.0 mln, the adjustment of the financial covenants to the provisions of the new Refinancing Facility; (iii) the revision with rescheduling of the existing revocable credit lines and the simultaneous cancellation of three credit lines.

Transactions concluded with WEBUILD fall within the scope of application of the Consob Regulation no. 17221/2010, since WEBUILD S.p.A. is an associate company, through CDP S.p.A., of CDP S.p.A., in turn controlled by the MEF.

Transactions with other MEF related parties

On 22 March 2023, the Credit Committee of MPS L&F Leasing & Factoring S.p.A. (hereinafter “MPS L&F”) - which later merged by incorporation into the Bank - approved the renewal in favour of SNAM RETE GAS S.p.A. with increased risk ceiling as debtor without recourse, from EUR 0.4 mln to a total of EUR 20.0 mln, based on the



assignor customer relationship. The transactions concern the purchase of non-notification receivables, with direct collections to the transferor and subsequent transfer to the transferee MPS L&F, backed by an insurance policy, with coverage ratio equal to 95% of the risk ceiling. The transaction falls within the scope of application of Consob Regulation no. 17221/2010, since SNAM RETE GAS S.p.A. is an indirect subsidiary of Cassa Depositi e Prestiti S.p.A. which is in turn controlled by the MEF.

On 28 March 2023, the Credit Committee of the Bank, subject to the opinion in favour from the Related Party Transactions Committee, resolved to authorise in favour of the VALVITALIA Group the participation of Banca MPS, together with other banks, in the 2023-2029 recovery plan proposed by VALVITALIA S.p.A. (acceptance of the arrangement pursuant to art. 23, paragraph 1, letter c) of Italian Legislative Decree no. 14/2019 *“Corporate Crisis and Insolvency Code in implementation of Italian Law no. 155 of 19 October 2017”*), which entails confirmation good till cancelled and reactivation of agreement for unsecured credit facilities down from EUR 22.0 mln to EUR 12.0 mln, and confirmation good till cancelled and reactivation of the agreement for forward purchase and sale of currency for EUR 3.0 mln, for a total of EUR 15.0 mln. The transaction falls within the scope of application of Consob Regulation no. 17221/2010, since VALVITALIA S.p.A. is an indirect subsidiary - through CDP Equity S.p.A. - of CDP S.p.A., in turn controlled by the MEF.

On 5 April 2023, the Credit Committee of the Bank resolved to authorise in favour of ANSALDO ENERGIA S.p.A., the ordinary review of existing credit lines, with a reduction from EUR 20.0 mln to EUR 17.0 mln, which can be used for opening credit against documents, for the issue of commercial and/or financial sureties both in Italy and abroad, in euro and foreign currency, as well as for hedging exchange rate risks. The transaction falls within the scope of application of Consob Regulation no. 17221/2010, since ANSALDO ENERGIA S.p.A. is a subsidiary of CDP Equity S.p.A., a wholly-owned subsidiary of CDP S.p.A., in turn controlled by MEF.

On 19 April 2023, the Credit Committee of MPS L&F - which later merged by incorporation into the Banca MPS - authorised in favour of AUTOSTRADE PER L'ITALIA S.p.A. a credit facility with recourse as transferred debtor, for a total of EUR 20.0 mln, on the transferor customer relationship for intercompany factoring transactions in the commercial field of infrastructural works with a disinvestment percentage of 80%. The transaction falls within the scope of application of Consob Regulation no. 17221/2010, since AUTOSTRADE PER L'ITALIA S.p.A. is an indirect subsidiary (jointly controlled) - through CDP Equity S.p.A. - of Cassa Depositi e Prestiti S.p.A., in turn controlled by the MEF.

On 8 May 2023, the Board of Directors of the Bank, subject to the favourable opinion of the Related Party Transactions Committee, has confirmed to ENI S.p.A., as part of the ordinary review of credit facilities, the credit facility applicable till cancellation of EUR 300.0 mln, usable on a mixed and multiple basis (opening of current account credit, financial transactions in the form of forward contracts, issue of sureties and letters of credit in Italy/abroad, loans in foreign currency, opening of credit against documents) by ENI S.p.A. and the ENI Group companies consolidated line by line. The transaction falls within the scope of application of Consob Regulation no. 17221/2010, as ENI S.p.A. is a subsidiary of the MEF.

Also on 8 May 2023, the Board of Directors of the Bank subject to previous favourable opinion of the Related Party Transactions Committee, resolved to approve in favour of AMCO - Asset Management Company S.p.A. the execution of a new fronting bank agreement (*“Amended Agreement”*), replacing the agreement signed in 2020 and, at the same time, the renewal of a credit facility in the form of a forward revolving current account for a maximum amount of EUR 30.0 mln, functional to the implementation of the Amended Agreement. The transaction falls within the scope of application of Consob Regulation no. 17221/2010, as AMCO S.p.A. is a subsidiary of the MEF.

On 28 June 2023, the Credit Leasing and Factoring function of the Bank authorised in favour of OPEN FIBER S.p.A. the increase in the risk ceiling of the debtor transferred without recourse from EUR 6.5 mln to a total of EUR 7.5 mln, in addition to confirmation of the notional limit of a total of EUR 10 mln, applicable to transferor customers subject to separate resolution. The transactions concern the purchase of non-notification receivables, with transfer only of single contracts of the transferred debtor, backed by an insurance policy with coverage ratio of 95% of the risk ceiling. The transaction falls within the scope of application of Consob Regulation no. 17221/2010, since OPENFIBER S.p.A. is an indirect subsidiary (under common control) of Cassa Depositi e Prestiti S.p.A., through CDP Equity S.p.A., in turn controlled by the MEF.

In the first half of 2023, in order to support the financing needs of its corporate customers, two funding transactions were also carried out with Cassa Depositi e Prestiti S.p.A., on the SME Plafond made available by CDP, as part of the Agreement signed by the latter and ABI, called the *“Business Platform”*, for the amounts of EUR 12.5 mln and EUR 36.4 mln. The transactions fall within the scope of application of Consob Regulation no. 17221/2010, as CDP S.p.A. is a subsidiary of the MEF.

Lastly, in the first half of 2023, MPS Capital Services, which later merged by incorporation into the Bank, approved the granting of a loan to M.T. Manifattura Tabacchi S.p.A., which envisages the construction of two new buildings



as part of a plan to redevelop an owned site in Florence. The loan for a total of EUR 43.6 mln was structured and pool financed by MPS Capital Services (now Banca MPS) and two other banks, with a share subscribed by Banca MPS totalling EUR 10.9 mln. The company financed is 40% owned by CDP Immobiliare S.r.l., in turn a wholly-owned subsidiary of CDP S.p.A.; therefore, the transaction falls within the scope of application of Consob Regulation no. 17221/2010 as M.T. Manifattura Tabacchi S.p.A. is a company subject to significant indirect influence of CDP S.p.A., in turn controlled by the MEF.

On 24 July 2023, the following was authorised in favour of TITAGARH FIREMA S.p.A.: (i) the renewal of the EUR 10.0 mln credit line for non-recourse purchase of receivables due from a public debtor, and (ii) the granting of a new EUR 8.0 mln credit line for non-recourse purchase of receivables due from another public debtor. The transaction falls within the scope of application of Consob Regulation no. 17221/2010, since TITAGARH FIREMA S.p.A. is 30% owned by Invitalia S.p.A., which in turn is wholly owned by the MEF.

On 11 August 2023, the following credit lines were authorised in favour of ENEL PRODUZIONE S.p.A.: (i) new assigned risk limit concession of EUR 12.0 mln, based on assignors subject to positive valuation and resolution, fully guaranteed by an insurance policy with a coverage ratio of 95%, and (ii) confirmation of assigned notional limit of EUR 3.0 mln. The transaction falls within the scope of application of Consob Regulation no. 17221/2010, since ENEL PRODUZIONE S.p.A. is directly owned by Enel Italia S.p.A. and indirectly by Enel S.p.A., the latter being a direct subsidiary of the MEF.

On 5 September 2023, the ordinary revision of credit facilities, in favour of CONSIP S.p.A. was authorised with confirmation of the existing credit facility which can be used as a current account credit facility, for EUR 10.0 mln. The transaction falls within the scope of application of Consob Regulation no. 17221/2010, since CONSIP S.p.A. is a wholly-owned subsidiary of the MEF.

On 12 September 2023, the Credit Committee of the Bank resolved in favour of CRONOS VITA S.p.A. to grant a long-term loan of up to EUR 74.6 mln, as part of a pool loan for a total of EUR 980.0 mln, maximum duration of up to 8 years, granted by the main Italian banks as part of the system operation, aimed at protecting the subscribers of Eurovita policies, as already reported in the Interim Report on Operations as at 30 September 2023. The transaction, which provides for the sale of business units of Eurovita S.p.A. to the main insurance companies operating in Italy, including Poste Vita S.p.A., falls within the scope of application of Consob Regulation no. 17221/2010 as CRONOS VITA S.p.A. is an associate, through Poste Vita S.p.A., of Poste Italiane S.p.A., in turn controlled by the MEF.

On 12 October 2023, in favour of FONDO ITALIANO DI CONSOLIDAMENTO E CRESCITA, as part of the ordinary revision with confirmation of the existing revocable credit line, the extension of the validity for internal purposes of the credit line of EUR 25.0 mln, usable as a current account credit line or the lower of the amount of EUR 25.0 mln and 30% of the amount of the fund's subscribed units still to be called, was authorised. This transaction falls within the scope of application of Consob Regulation no. 17221/2010, since FONDO ITALIANO DI CONSOLIDAMENTO E CRESCITA is managed by Fondo Italiano d'Investimento SGR S.p.A., which is controlled by CDP S.p.A., which in turn is controlled by the MEF.

On 14 November 2023, the Credit Committee authorised, in favour of AGENZIA NAZIONALE PER L'ATTRAZIONE DEGLI INVESTIMENTI E LO SVILUPPO D'IMPRESA S.p.A. ("INVITALIA S.p.A."): (i) the participation of Banca MPS in the syndicated loan for a total amount of EUR 68.0 mln, for the maximum share of 40% equal to EUR 27.2 mln, with a duration of 5 years and bullet repayment at maturity, assisted by an independent guarantee, on first demand, issued by SACE S.p.A. equal to 50% of the amount financed, and (ii) the confirmation of the counterparty operational financial risk limit of EUR 5.0 mln, for securities transactions. The transaction falls within the scope of application of Consob Regulation no. 17221/2010, as INVITALIA S.p.A. and SACE S.p.A. are directly controlled by the MEF.

On 19 December 2023, SOGEI SOCIETÀ GENERALE ED INFORMATICA S.p.A. ("SOGEI S.p.A.") was authorised to increase the non-recourse risk limit loan to EUR 11.0 mln, guaranteed by an insurance policy with a coverage ratio of 95%. The transaction falls within the scope of application of Consob Regulation no. 17221/2010, since SOGEI S.p.A. is a wholly-owned subsidiary of the MEF.

On 31 December 2023, subject to the favourable opinion of the Related Party Transactions Committee, Banca MPS's acceptance of the proposal made by ANIMA HOLDING S.p.A. for the signing of an agreement relating to the confirmation and stabilisation of the fee regime in force was authorised for the placement of asset management products of the Group headed by ANIMA HOLDING S.p.A.. The transaction falls within the scope of application of Consob Regulation no. 17221/2010, since ANIMA HOLDING S.p.A. is an associate company of Poste Italiane S.p.A., which in turn is controlled by the MEF.

In the second half of 2023, the Bank's Board of Directors authorised, in favour of FINCANTIERI S.p.A., as part of the ordinary review of credit lines, the extension of the existing credit lines, as well as the granting of a new



unsecured loan of EUR 100.0 mln, duration 5 years, as the maximum share of Banca MPS's participation in a pooled loan of a total of EUR 800.0 mln, with the acquisition of a 70% SACE S.p.A. "SupportItalia" guarantee. In this context, a credit line to hedge interest rate risk on the aforementioned pool transaction and a new operating limit of EUR 50.0 mln for factoring transactions for the purchase of receivables without recourse were also authorised. The transaction falls within the scope of application of Consob Regulation no. 17221/2010 as the MEF, the controlling shareholder of Banca MPS, is the majority shareholder of CDP S.p.A. which in turn holds 100% of CDP Industria S.p.A., the majority shareholder of FINCANTIERI S.p.A.

Transactions with other related parties

On 21 February 2023, the Credit Committee of the Bank authorised the ordinary review of existing credit facilities in favour of IMMOBILIARE NOVOLI S.p.A., with a partial decrease (in mixed, unsecured and multiple credit lines) for a total of EUR 41.2 mln. The transaction falls within the scope of application of Consob Regulation no. 17221/2010, as IMMOBILIARE NOVOLI S.p.A. is jointly controlled by the Bank through its 50% equity investment in the share capital.

On 27 June 2023, the Bank's Corporate Lending function has authorised the mortgage restriction concerning SANDONATO S.r.l. relating to two pooled loans backed by a first and second degree mortgage on real estate, to guarantee the residual amount of two mortgages for the Banca MPS portion equal to EUR 25.4 mln. The transaction falls within the scope of application of Consob Regulation no. 17221/2010 as SANDONATO S.r.l. is a wholly-owned subsidiary of Immobiliare Novoli S.p.A., in turn jointly controlled by the Bank through its 50% equity investment in the share capital.

Finally, during 2023 the Bank realized the merger transaction of the internal defined-benefit pension funds into Section B of MPS Pension Fund, own related party. The transaction had already been approved by the Board of Director of the Parent Company in its meeting of 16 December 20219, subject to the favourable opinion of the Relate Party Transaction Committee, as part of company pension plan reform. For further details please refer to section 10.5 "Defined benefit company pension funds" of these Notes to the financial statement.

As regards securitisation transactions and covered bond programmes, see the specific information provided in the Notes to the Consolidated Financial Statements - Part E – Information on risks and hedging policies.



The following tables summarise the relationships and financial effects of transactions carried out in the financial year with subsidiary and associate companies, key management personnel and other related parties.

The “MEF Scope” column highlights the balances⁸⁶ of the balance sheet and income statement items as at 31 December 2023 relating to the transactions carried out with the MEF and the companies controlled by the MEF, namely direct or indirect subsidiaries of the MEF and their associates.

2.a Related-party transactions: balance sheet items

	Value as at 31 12 2023							
	Subsidiaries	joint venture	Associated companies	Executives with strategic responsibility	other related parties	MEF Scope	Total	% FS items
Current accounts and demand deposits with banks	952,734	-	-	-	-	-	952,734	92.93%
Financial assets held for trading	9,038	-	30,770	-	-	3,062,673	3,102,481	52.28%
Financial assets mandatorily measured at fair value	-	-	-	-	-	28,531	28,531	7.79%
Financial assets measured at fair value through other comprehensive income	-	-	-	-	-	1,688,730	1,688,730	68.87%
Loans to banks measured at amortised cost	439,767	-	-	-	-	14,020	453,787	10.75%
Loans to customers measured at amortised cost	1,570,204	60,905	62,452	2,057	1,134	8,992,545	10,689,297	12.28%
Other assets	38,539	-	-	-	-	1,675,195	1,713,734	49.66%
Total assets	3,010,282	60,905	93,222	2,057	1,134	15,461,694	18,629,294	-
Financial liabilities measured at amortised cost	3,649,404	1,785	48,609	1,805	115,825	2,582,815	6,400,243	6.11%
Financial liabilities held for trading	41,916	-	33,907	-	-	1,878,047	1,953,870	67.24%
Other liabilities	5,071	487	15,135	2	3	18,947	39,645	1.24%
Total liabilities	3,696,391	2,272	97,651	1,807	115,828	4,479,809	8,393,758	
Guaranties issued and Commitments	328,053	13,994	26,054	200	28	1,950,115	2,318,444	n.a.

2.b Related-party transactions: income statement items

	Value as at 31 12 2023							
	Subsidiaries	joint venture	Associated companies	Executives with strategic responsibility	other related parties	MEF Scope	Total	% FS items
Interest income and similar revenues	34,555	3,754	2,719	40	13	298,607	339,688	7.88%
Interest costs and similar charges	(154,974)	(12)	(562)	(44)	(3,362)	(58,834)	(217,788)	9.84%
Fee and commission income	1,067	87	182,203	10	6	201,485	384,858	26.30%
Fee and commission expense	(2,065)	-	(434)	(1)	(1)	(17,962)	(20,463)	11.98%
Net profit (loss) from financial assets and liabilities measured at fair value through other comprehensive income	-	-	-	-	-	(1,061)	(1,061)	-18.44%
Net adjustments/impairments	(59)	299	(53)	(3)	-	(4,684)	(4,500)	1.15%
Dividend	104	-	116,367	-	-	338	116,809	81.67%
Operating costs	16,437	(1)	(2,524)	(8,461)	(23)	(20,918)	(15,490)	n.m.

⁸⁶ 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”.



For the list of subsidiaries and companies subject to significant joint control as at 31 December 2023, 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.

The transactions with subsidiaries decreased considerably compared to the previous year following the incorporation of the two subsidiaries MPS Capital Services and MPS Leasing and Factoring as from 1 January 2023 and mainly concerned, as at 31 December 2023 to:

- Deposits and reciprocal current accounts with the subsidiary Widiba;
- loan transfer transactions to the special purpose vehicles MPS Covered Bond S.r.l. and MPS Covered Bond 2 S.r.l. under the two programs for the issue of covered bonds;
- outsourcing services related to the auxiliary activities provided by the Bank (administrative services and property administration and IT services).

Transactions with associates mainly refer to AXA Group companies. Specifically, it should be noted that financial assets and liabilities held for trading refer to hedging activities for AXA group insurance product placed on MPS Network

With regard to the balances shown in Table 2.b “Related-party transactions: income statement items” shown above, please note the following:

- interest income and expense with reference to subsidiaries derives mainly from aforementioned position with Widiba;
- commission income from subsidiaries mainly derives from financial services provided within the framework agreement entered into with MP Fiduciaria; commission income from associates refers almost entirely to the insurance investees Axa MPS Assicurazioni Vita S.p.A. and Axa MPS Assicurazioni Danni S.p.A.;
- dividends refers to G.Imm.Astor for subsidiaries and refers to Axa MPS Assicurazioni Danni S.p.A., Axa MPS Assicurazioni Vita S.p.A, Fondo Etrusco and Fondo Mionibond for associated companies;
- operating costs relating to associates consist mostly of insurance cost with insurance associates.

With regard to the MEF scope, note the following:

- financial assets mainly consist of government bonds, which generated interest income for EUR 209.5 mln;
- the other assets consist of tax credits held by the Bank on the tax authorities for various reasons as a result of the measures introduced by various legal provisions, of which EUR 1,660.2 mln due to tax credits for construction subsidies purchased by the Parent Company, which boosted interest income by EUR 56.1 mln;
- the liabilities measured at amortised cost mainly refer to the deposits with CDP counterparty and Invitalia for EUR 1,647.6 mln, which impacted for EUR 49.8 mln on the item interest expense;
- the fee and commission expenses consist almost entirely of commissions paid to Nexi S.p.A.; the fee and commission income mainly refer to the distribution contract with Anima (associate in the MEF scope) and to the support activities for the MEF’s securities placement auctions carried out by the Bank;
- profit (loss) from other assets and liabilities measured at fair value through profit or loss mainly concerns capital losses and capital gains recognised on Fondo Italiano d’Investimento and Webuild units, respectively;
- net write-downs/write-backs for credit risk concern primarily write-backs on loans with the counterparty Gruppo PSC S.p.A. (EUR 2.0 mln);
- operating costs are almost entirely attributable to postage and shipping costs.



Part I – Share-Based Payment Agreements

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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 “identified staff” should be paid in the form of shares or associated financial instruments over a period of at least 4 years. “Variable remuneration” refers to both variable components linked to the performance or other parameters and amounts paid as incentives 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 has adopted in the financial years 2017, 2020, 2021 and 2022, Annual Performance Shares Plans and in the financial years 2018 and 2019, Annual Treasury Shares Plans.

In the session of 20 April 2023, the Shareholders’ Meeting of the Bank approved a Phantom Shares⁸⁷ Plan for 2023, designated to the payment of any severance or variable incentive remuneration for the staff of the Montepaschi Group. The contents and the operating procedures of these plans are included in the “Remuneration policies” posted on the web site of the Bank <https://www.gruppomps.it/corporate-governance/assemblee-azionisti/archivio-assemblee.html>.

The allocation of the Performance Shares for the Plans up to 2017 and for Plans from 2020 to 2022, as well as the allocation of Phantom Shares for the 2023 Plan, do not require the material assignment of shares, but rather the payment of an amount pegged to the share value reported over time, for accounting purposes it is considered a cash settled share based payment pursuant to IFRS 2 “Share-based payments”. The debt corresponding to the

amounts to be recognised will be paid off in cash and recorded at the end of the service period in case of amounts recognised as severance pay, or when performance target are achieved in case of amount recognised under the incentive scheme, and the total amount will depend on the price of the instruments representative of the capital (performance shares) which will be measured at fair value, calculated as the best estimate of the amount due in consideration of the different conditions established by the plans, valued with regard to the fair value of the shares of the Bank assigned from year to year and the value of the Bank’s shares. The estimate of the fair value of the share, at the measurement date, will not take into account any expected vesting conditions (e.g. condition of permanence in service or conditions for the achievement of results), except for market conditions. The vesting conditions should be taken into consideration by adjusting the number of assignments included in the assessment of the liability arising from the transaction; the market conditions (as with any other non-accrual-related conditions) should instead be considered in the estimate of the liabilities fair value arising from the transaction and of the related cost attributed to the Income Statement.

The 2018 and 2019 plans, providing for the assignment of shares of the Bank at the accrual time of the vesting conditions, fall within the scope of the application of the IFRS 2 accounting standard as equity settled share-based payments, in the context of which the instruments representative of the capital are attributed as an offsetting entry to an equity reserve. Within this scope, the severance cost set forth in the Plans and the corresponding increase in net equity are measured at the fair value of the shares that will be assigned; the estimate of the fair value of the share at the measurement date will not need to take into account any expected vesting conditions (e.g. condition of permanence in service or conditions for the achievement of results), except for market conditions. The vesting conditions should be taken into consideration by adjusting the number of financial instruments included in the measurement of the amount of the transaction so that the value recognised in the financial statements for the services received as a consideration for the financial instruments will be based on their number which, at the end, will actually be accrued; the market conditions should instead be considered in the estimate of the fair value of the assigned shares.

The fair value of the Performance Shares and of the treasury shares assigned is determined – pursuant to art. 9, paragraph 4 of the Income Tax Act (TUIR) – on the basis of the arithmetic average of the MPS share prices reported in the thirty days leading up to the assignment date.

⁸⁷ It should be noted that, although the characteristics and operation remain unchanged, with a view to greater alignment with market practices, the name of the synthetic instrument was changed from “Performance Shares” (name used by the Bank in previous years) to “Phantom Shares”.



Quantitative Information

As for the 2016 Plan, of the original 32,806 deferred performance shares, 4.01 of them were paid out during 2023. As at 31 December 2023, following both the liquidations and spin-offs that have occurred to date, and the regrouping of the BMPS share in the ratio of 100 to 1, which took place with the resolution of the Shareholders' Meeting of 15 September 2022, there remain 8.19 Performance Shares to be liquidated in accordance with the provisions of the Plan, in compliance with applicable internal and external regulations.

With regard to the 2023 Plan, 44,998 Phantom Shares to be disbursed by way of Severance, according to the terms and methods set forth in the deferral plan signed at the time of the early termination of the employment between an Executive and the Bank.



Part L – Segment reporting

In line with the provisions of IFRS 8, par. 4, the Bank prepares this segment reporting at Group level in the Notes to the Consolidated Financial Statements, to which reference is made.



Part M – Leasing Information

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Section 1 - Lessee

Qualitative Information

In the capacity of lessee, the Bank stipulates leasing agreements of properties to be primarily used for business. Therefore, these leased properties are used as branches and as spaces intended to accommodate ATMs or internal offices.

The leasing activity also includes the stipulation of leasing agreements related to residential property used by employees during transfers to other work locations.

In reality, the leasing activities of the Bank is also aimed at the need to relocate branches and offices. Particular attention is paid to the identification of the properties that are more suitable for the intended use, in line with the cost effectiveness criteria set forth by the company.

As at 31 December 2023, the Bank had approximately 1,070 contracts in place in the capacity of lessee.

In addition, the Bank has contracts for motor vehicles, mainly referring to long-term leases of company cars and cars given as a fringe benefit to employees. In view of the marginal relevance of the afore-mentioned lease agreements with respect to the total values of the assets consisting of rights of use recognised in the Financial Statements pursuant to IFRS 16, no further disclosure is provided on these contract categories.

The Bank is not usually exposed to cash outflows not included in the lease liability. The exposures deriving from extension options are included in the lease liabilities since, in order to provide business continuity to the Branch offices, the Bank considers the first renewal to be certain, except in special cases. The rent due on the leases is updated in line with ISTAT data. No contracts entered into as lessee falls into the other categories referred to in the standard (residual value guarantees, commitments on leases not yet operational).

During 2023, no new sale and leaseback transactions, the purpose of which in any case is to allow the Bank units housed in the properties concerned to continue to use them, were completed.

The Bank recognises as costs:

- short-term leases in the case of assets such as properties and technologies when the related contracts have a maximum term of twelve months and do not provide for any extension options;
- the leasing of assets of a modest value, i.e. characterised by a value that is under five thousand euro, related mainly to cell phones.

Quantitative Information

The following table shows amortisation costs for the assets comprising the right of use, broken down by the underlying asset class.

item	31 12 2023	31 12 2022
Depreciations on right of Use acquired through leasing	42,761	44,678
a) land	-	-
b) buildings	37,818	38,290
c) furniture and furnishings	-	-
d) electronic systems	3,631	5,146
e) other	1,312	1,242



Section 2 - Lessor

Qualitative Information

The Bank executes, in its capacity as the lessor, leasing contracts of properties for business and residential use. The properties for business use are leased to both third parties and to intragroup companies. In the latter case, the properties and spaces occupied by the administrative offices of the companies of the Group are the subject matter of these contracts.

As regards the properties for residential use, these are primarily owned flats leased to third parties.

The contracts for residential use generally have a duration of 4+4 years, while those for business use a duration of 6+6 years.

For the most part, active leases, excluding those granted to Group companies, are primarily protected by the payment of a security deposit or surety bond by the tenant, as required by current legislation. This amount can be used to repair any damage that the tenant may cause.

In addition to this, the Bank does not apply any specific contractual clause regarding the management of any risk associated with the rights held on the underlying assets.

Following the incorporation of the subsidiary MPS Leasing & Factoring S.p.A. in 2023, the Bank operates in the financial leasing market, stipulating contracts mainly for companies and offering products in the real estate, capital goods, vehicles, energy and aircraft sectors, using its own network and, at the same time, single-firm agents.

As at 31 December 2023, the Bank had approximately 22,573 contracts in its portfolio for a gross book value of EUR 3,685.3 mln, of which EUR 2,154.9 mln in the real estate leasing sector (3,852 contracts), EUR 1,035.7 mln in the capital goods sector (10,967 contracts), EUR 266.1 mln in the vehicle sector (7,272 contracts), EUR 187.9 mln in the energy sector (328 contracts) and EUR 40.7 mln in the aviation sector (154 contracts). The value of the lease agreements executed during the year amounted to EUR 502 mln (no. 2,258).

The Bank recognises financial leasing in compliance with the accounting standard IFRS 16 and classifies the transactions under financial assets measured at amortised cost.



Quantitative Information

1. Information on the balance sheet and income statement

For information on loans for leasing and assets transferred under operating leasing, see, respectively, table 4.2 in Section 4 and Tables 8.1 and 8.6a in Section 8, Part B, Assets; for the information on interest income on loans for leasing and on other income from financial and business leasing, see, respectively, table 1.1 in Section 1 and Tables 16.2 in Section 16, Part C.

2. Finance leases

2.1 Quantitative information - Financial leases

	31 12 2023
Time bands	Total lease payments receivable
Up to 1 year	828.788
from 1 to 2 years	458.561
from 2 to 3 years	502.826
from 3 to 4 years	396.122
from 4 to 5 years	451.125
over 5 years	1.102.285
Total lease payments receivable	3.739.707
Reconciliation with investments	3.739.705
Not accrued gains	479.367
Unguaranteed residual value	629.803
Net impairment on lease finance	434.463
Book value of finance lease	2.630.535

The table shows the classification by time bands of payments to be received for leasing and the reconciliation between the payments to be received and the loans for lease financing in the portfolio as at 31 December 2023. The amounts are not discounted (IFRS 16.94). The comparative figures are not included as the Bank has carried out financial leasing activities starting from 2023, following the incorporation of the subsidiary MPS Leasing & Factoring S.p.A.

2.2 Other information

Financial lease agreements, executed with customers, allow for a risk management on the underlying assets in line with the policies of the Bank but they do not provide for repurchase agreements, guarantees on the residual value or variable payments.



3. Operating leases

3.1 Classification by time bands of payments to be received

Time bands	Year	31 12 2023 Total lease payments receivable (excluding VAT)	Year	31 12 2023 Total lease payments receivable (excluding VAT)
Up to 1 year	2023	7,708	2022	8,699
from 1 to 2 years	2024	7,757	2023	8,609
from 2 to 3 years	2025	7,602	2024	8,998
from 3 to 4 years	2026	7,427	2025	9,472
from 4 to 5 years	2027	6,521	2026	9,746
over 5 years	From 2028	20,700	From 2027	53,588
Total		57,715		99,112

The table shows the classification by time bands of payments to be received for the leasing. The amount of payments shown are not actualised. The year-to-year Comparison shows a significant decrease mainly attributable to the termination of leasing contracts with the subsidiaries MPS Capital Services and MPS Leasing & Factoring following the merger by incorporation transaction carried out during 2023.

Other information

No other information to report.



CERTIFICATION OF THE FINANCIAL STATEMENTS PURSUANT TO ART. 81-TER OF CONSOB REGULATION NO. 11971 OF 14 MAY 1999, AS SUBSEQUENTLY AMENDED AND SUPPLEMENTED

1. The undersigned, Luigi Lovaglio, as Chief Executive Officer, and Nicola Massimo Clarelli, as Financial Reporting Officer of Banca Monte dei Paschi di Siena S.p.A., also having regard to art. 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 separate financial statements for fiscal year 2023.
2. The verification of the adequacy and effective application of administrative and accounting procedures for the preparation of the separate financial statements during 2023 was based on methods defined 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 separate financial statements:
 - were prepared in accordance with the international accounting standards recognised by the European Union pursuant to European Parliament and Council Regulation (EC) no. 1606/2002 of 19 July 2002;
 - are consistent with the underlying documentary evidence and accounting records;
 - are suitable to provide a true and fair representation of the capital, economic and financial situation of the issuer.
 - 3.2 the Report on Operations includes a reliable analysis of the trends and results of operations as well as of the position of the issuer, together with a description of the main risks and uncertainties to which it is exposed.

Siena, 29 February 2024

Signed by
On behalf of the Board of Directors
The Chief Executive Officer
Luigi Lovaglio

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 No. 39 of 27 January 2010 and article 10 of Regulation (EU) No. 537/2014

To the shareholders of
Banca Monte dei Paschi di Siena SpA

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Banca Monte dei Paschi di Siena SpA (the "Bank"), which comprise the balance sheet as of 31 December 2023, the income statement, statement of comprehensive income, statement of changes in equity, cash flow statement for the year then ended, and notes to the financial statements, including material accounting policy information.

In our opinion, the financial statements give a true and fair view of the financial position of the Bank as of 31 December 2023, and of the result of its operations and 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 to implement article 9 of Legislative Decree No. 38/05 and article 43 of Legislative Decree No. 136/15.

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 this report. We are independent of the Bank pursuant to the regulations and standards on ethics and independence applicable to audits of financial statements under Italian law. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, 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.

PricewaterhouseCoopers SpA

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Key Audit Matters

Auditing procedures performed in response to key audit matters

Valuation of loans to customers measured at amortised cost

Notes to the financial statements:

Part A – Accounting policies;

Part B – Information on the balance sheet, Section 4 – Financial assets measured at amortised cost;

Part C – Information on the income statement, Section 8 – Net impairment (losses) /reversals for credit risk;

Part E – Information on risks and hedging policies, Section 1 – Credit risk.

Loans to customers as at 31 December 2023 represent the predominant part of line item 40 b) “Financial assets measured at amortised cost – loans to customers” which shows a balance equal to Euro 87,026 million, corresponding to 71 per cent of the total assets of the financial statements.

Net impairment losses on loans to customers recognised in the year amounted to Euro 385 million (line item 130 a) in the income statement).

Special attention was paid to the valuation of the above-said loans as part of the audit because of the materiality of the value of loans in relation to the financial statements, as a whole, as well as because the related impairment losses consist of estimates made by the directors which incorporate elements of subjectivity and complexity related to the complex valuation processes, methods and assumptions utilised.

The use of significant assumptions in the estimation processes specifically regards, beside the verification of the significant increase in credit risk for the allocation of the portfolios to the various risk stages, the determination of parameters used in the models to calculate the expected loss on a collective basis and, for loans being assessed on an individual basis, for the estimation of the expected future cash flows of the related

In performing the audit, we considered the internal control system relevant to the preparation of the financial statements in order to design audit procedures that were appropriate in the circumstances.

In this respect, we also considered the integration and update of the management overlays which were required to take into account any potential worsening of credit risk linked to the current and future economic and financial risks, including climate-environmental risks that are not currently factored in the models in use.

In order to address this key audit matter, the following main activities were performed also with the support of PwC network experts:

- understanding, evaluation and verification of the operating effectiveness of relevant controls over the IT systems and applications used;
- understanding and evaluation of the design of relevant controls as part of the monitoring, classification and valuation of loans and testing of the operating effectiveness of such controls;
- understanding and verification of the appropriateness of policies, procedures and models used to measure the significant increase in credit risk, for the allocation of the portfolios to the various risk stages and for measuring the expected loss both on an individual and collective basis, taking also into account the results of back-testing implemented by the Bank and of the findings from the investigation on credit risk carried out by the Supervisory Authority;
- understanding and verification of the methods used to determine the main estimation parameters in the context of the models used to measure the expected loss on a collective basis, taking into account the adjustments made during the year to the models already used. We also verified the methods to

<i>Key Audit Matters</i>	<i>Auditing procedures performed in response to key audit matters</i>
timing and realisable value of the underlying guarantees, if any. Furthermore, for the current year these estimation processes were also impacted by the integration and update of the management overlays which were required to take into account any potential worsening of credit risk linked to the current and future economic and financial risks, including climate-environmental risks that are not currently factored in the models in use. These circumstances entailed, as pointed out in the notices and recommendations of the Supervisory Authorities and standard setters, the review of the processes and methods to measure loans, with reference to both the determination of the significant increase in credit risks and to the determination of the main variables and parameters used in the calculation models of the expected loss on a collective basis.	determine management overlays in order to assess their reasonableness; • verification, on a sample basis, of the reasonableness of the classification among performing loans (stage 1 and stage 2) and non-performing loans (stage 3) based on the available information on the status of the borrower and other pieces of information available, including external information; • verification of the correct application of the measurement criteria established for loans classified as performing (stage 1 and stage 2), of the completeness and accuracy of the model input data used to determine the expected loss on a collective basis; • with specific regard to non-performing loans (stage 3), taking into account the financial statement classification according to the categories under the applicable regulatory framework and the currently assumed recovery scenarios (sale or internal recovery), for loans assessed on an individual basis, we checked, on a sample basis, the reasonableness of the assumptions made to estimate the expected credit loss with particular reference to the identification and quantification of the expected future cash flows from the recovery activities, to the evaluation of the guarantees backing these exposures and to the estimate of the recovery times; • for non-performing loans valued on a collective basis, we verified the correct determination of the main estimation parameters within the model used, as well as the completeness and accuracy of the model input data; • benchmark analysis procedures on the customer loan portfolio and related coverage levels and analysis of the most significant fluctuations, taking into consideration loss forecasts within and outside the Bank (such as the Financial Stability Report issued by the Bank of Italy) and discussing the most significant changes and the elements characterizing the loan portfolio with management; • critical reading of the minutes of the corporate governance bodies and the correspondence with the Supervisory Authorities;

<i>Key Audit Matters</i>	<i>Auditing procedures performed in response to key audit matters</i>
	• performance of audit procedures on subsequent events; • acquisition of specific written representations from management; • check of the completeness and adequacy of the disclosures provided in accordance with the provisions of international accounting standards, the applicable regulatory framework, as well as with the notices and recommendations issued by the Supervisory Authorities and standard setters.

Evaluation of legal risks

Notes to the financial statements:

Part A – Accounting policies;

Part B – Information on the balance sheet, Section 10 – Provisions for risks and charges;

Part C – Information on the income statement, Section 11 – Net provisions for risks and charges;

Part E – Information on risks and hedging policies, Section 5 – Operational risks.

The Bank is exposed to significant civil disputes, to the effects of the rulings due to criminal proceedings and to out-of-court claims, with reference to the financial information publicly disseminated in the period from 2008 to 2015, as well as to risks linked to representations and warranties given in the disposal and derecognition of non-performing loans.

Net provisions for risks and charges amounted in the year to positive Euro 469 million (line item 170 b) in the income statement) of which Euro 142 million related to new provisions in the year and Euro 611 million related to reversals.

The evaluation process of these legal risks that the Bank performed with the support also of its legal counsel and other external experts, with particular reference to provisions related to civil and criminal disputes and out-of-court claims deriving from information publicly

In performing the audit, we considered the internal control system relevant to the preparation of the financial statements in order to design audit procedures that were appropriate in the circumstances.

In order to address this key audit matter, the following main activities were performed also with the support of PwC network experts:

- understanding and assessment of the design of relevant controls implemented by the Bank in relation to the management and assessment of legal risks and verification of the operating effectiveness of such controls;
- obtainment and analysis of the written confirmation from the Bank's legal advisors about their considerations on the evolution of the pending lawsuits, the possibility of loss, as well as the main information used;
- analysis of the reasonableness of the directors' assumptions for estimating provisions and reversals made, in addition to the methods and conclusions included in the reports prepared by the external experts engaged by the Bank. This activity was carried out with particular reference to the changes in the assessment of the risk of losing the civil and criminal lawsuits regarding the financial information disseminated to the public in the 2008-2015 period, following the rulings handed down during the year;
- performance of procedures to validate the completeness and accuracy of the data used to determine the provisions for risks and charges;

Key Audit Matters	Auditing procedures performed in response to key audit matters
disseminated in the period from 2008-2015, as well as the provisions linked to representations and warranties given in the disposal and derecognition of non-performing loans, is considered a key audit matter, for the aggregate high value of these risks, as well as because estimating the associated charges requires management to make use of estimates which, by their very nature, are marked by a high degree of subjectivity. Furthermore, for the current year, this estimation process proved to be far more complex since the evolution of the judicial proceedings, with particular reference to certain rulings handed down during 2023, determined a significant change in the assessed risk of losing the civil and criminal lawsuits regarding the financial information disseminated to the public during the 2008-2015 period.	- critical reading of the minutes of the corporate governance bodies and the correspondence with the Supervisory Authorities; - performance of audit procedures on subsequent events; - acquisition of specific written representations from management; - verification of the completeness and adequacy of disclosures connected with the key audit matter in question, with reference also to the requirements of the applicable accounting standards.

Recoverability of deferred tax assets

Notes to the financial standards:

Part A – Accounting policies;

Part B – Information on the balance sheet,

Section 10 – Tax assets and tax liabilities;

Part C – Information on the income

statement, Section 19 – Tax

(expense)/recovery on income from continuing operations.

As of 31 December 2023, the Bank recorded Euro 1,309 million in the asset line item 100 "Tax assets" for net deferred tax assets ("DTA") related to tax losses that cannot be converted into tax credits and other deductible temporary differences, whose recoverability depends on the availability of taxable income in the future.

Taxes for the year amount to a positive value of Euro 368 million (line item 270 in the income statement) mainly related to the effect of the DTA assessment, equal to a positive value of Euro 827 million, and to the net reversals for the year.

In performing the audit, we considered the internal control system relevant to the preparation of the financial statements in order to design audit procedures that were appropriate in the circumstances.

Specifically, in order to address this key audit matter, the following main activities were performed, also with the support of PwC network experts:

- understanding and evaluation of the process and methodology adopted by the directors to carry out the probability test;
- check of the consistency of the methodology adopted with the provisions of the applicable international financial reporting standard, taking into account professional practices, as well as the notices and recommendations of the Supervisory Authorities and standard setters;
- assessment, including through a check of external data, where available, of the reasonableness of the main qualitative and quantitative assumptions (revenue flows, discount and growth rates) and of the different

<i>Key Audit Matters</i>	<i>Auditing procedures performed in response to key audit matters</i>
The assessment of the recoverability of these assets is a key audit matter because they are significant in value with respect to the financial statements, taken as a whole, and because their valuation is based on an estimation process (probability test), which entails using assumptions and parameters, considering their very nature, that include a high degree of subjectivity. Specifically, the aforesaid estimation process relies on prospective balance sheet and income statement projections of the Bank, consistent with the 2022-2026 Group Business Plan approved by the Board of Directors of the Bank on 22 June 2022, which must be supplemented by valuation assumptions such as (i) the determination of taxable income that is expected to be realised in the time-period considered for the DTA recovery, (ii) the growth rates used for the projection of future taxable income and the probability that there will be future taxable income, (iii) the extent of the foreseeable time-period for the recovery of DTAs, (iv) the correct interpretation of the applicable tax legislation.	types of deductible temporary differences based on the applicable tax legislation, used to prepare the probability test; • analysis of the reasonableness of the Bank prospective balance sheet and income statement projections used and verification of the consistency with the 2022-2026 Group Business Plan; • verification of the mathematical accuracy of calculations underlying the probability test and the correctness of the calculations performed; • critical reading of the minutes of the corporate governance bodies and the correspondence with the Supervisory Authorities; • acquisition of specific written representations from management; • check of the completeness and adequacy of disclosures provided by the directors in the notes to the financial statements in accordance with international accounting principles requirements and the applicable regulatory framework, as well as with the notices and recommendations issued by the Supervisory Authorities and standard setters.

Responsibilities of the Directors and the Board of Statutory Auditors for the Financial Statements

The directors are responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union, as well as with the regulations issued to implement article 9 of Legislative Decree No. 38/05 and article 43 of Legislative Decree No. 136/15 and, in the terms prescribed by 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.

The directors are responsible for assessing the Bank's ability to continue as a going concern and, in preparing the financial statements, for the appropriate application of the going concern basis of accounting, and for disclosing matters related to going concern. In preparing the financial statements, the directors use the going concern basis of accounting unless they either intend to liquidate the Bank or to cease operations, or have no realistic alternative but to do so. The board of statutory auditors is responsible for overseeing, in the terms prescribed by law, the Bank'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 the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of our audit conducted in accordance with International Standards on Auditing (ISA Italia), we exercised professional judgement and maintained professional scepticism throughout the audit. Furthermore:

- We identified and assessed the risks of material misstatement of the financial statements, whether due to fraud or error; we designed and performed audit procedures responsive to those risks; we 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 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 Bank's internal control;
- We evaluated the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors;
- We concluded on the appropriateness of the 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 Bank'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 Bank to cease to continue as a going concern;

- We 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 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 identified during our audit.

We also provided those charged with governance with a statement that we complied with the regulations and standards on ethics and independence applicable under Italian law and communicated with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate the related risks, or safeguards applied.

From the matters communicated with those charged with governance, we 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 described these matters in our auditor's report.

Additional Disclosures required by Article 10 of Regulation (EU) No. 537/2014

On 11 April 2019, the shareholders of Banca Monte dei Paschi di Siena SpA engaged us to perform the legal audit of the stand-alone and the consolidated financial statements for the years ending 31 December 2020 to 31 December 2028.

We declare that we did not provide any prohibited non-audit services referred to in article 5, paragraph 1, of Regulation (EU) No. 537/2014 and that we remained independent of the Bank in conducting the statutory audit.

We confirm that the opinion on the financial statements expressed in this report is consistent with the additional report to the board of statutory auditors, in its capacity as audit committee, prepared pursuant to article 11 of the aforementioned Regulation.

Report on Compliance with other Laws and Regulations

Opinion on compliance with the provisions of Commission Delegated Regulation (EU) 2019/815

The directors of Banca Monte dei Paschi di Siena SpA are responsible for the application of the provisions of Commission Delegated Regulation (EU) 2019/815 concerning regulatory technical standards on the specification of a single electronic reporting format (ESEF - European Single Electronic Format) (hereinafter, the "Commission Delegated Regulation") to the financial statements as of 31 December 2023, to be included in the annual report.



We have performed the procedures specified in auditing standard (SA Italia) No. 700B in order to express an opinion on the compliance of the financial statements with the provisions of the Commission Delegated Regulation.

In our opinion, the financial statements as of 31 December 2023 have been prepared in the XHTML format in compliance with the provisions of the Commission Delegated Regulation.

Opinion in accordance with Article 14, paragraph 2, letter e), of Legislative Decree No. 39/2010 and Article 123-bis, paragraph 4, of Legislative Decree No. 58/1998

The directors of Banca Monte dei Paschi di Siena SpA are responsible for preparing a report on operations and a report on the corporate governance and ownership structure of Banca Monte dei Paschi di Siena SpA as of 31 December 2023, including their consistency with the relevant financial statements and their compliance with the law.

We have performed the procedures required under auditing standard (SA Italia) No. 720B in order to express an opinion on the consistency of the report on operations and of the specific information included in the report on corporate governance and ownership structure referred to in article 123-bis, paragraph 4, of Legislative Decree No. 58/98, with the financial statements of Banca Monte dei Paschi di Siena SpA as of 31 December 2023 and on their compliance with the law, as well as to issue a statement on material misstatements, if any.

In our opinion, the report on operations and the specific information included in the report on corporate governance and ownership structure mentioned above are consistent with the financial statements of Banca Monte dei Paschi di Siena SpA as of 31 December 2023 and are prepared in compliance with the law.

With reference to the statement referred to in article 14, paragraph 2, letter e), of Legislative Decree No. 39/2010, issued on the basis of our knowledge and understanding of the company and its environment obtained in the course of the audit, we have nothing to report.

Florence, 18 March 2024

PricewaterhouseCoopers SpA

Signed by

Marco Palumbo
(Partner)

This independent auditor's report has been translated into the English language solely for the convenience of international readers. Accordingly, only the original text in Italian language is authoritative.



Report of the Board of Statutory Auditors

REPORT OF THE BOARD OF STATUTORY AUDITORS TO THE GENERAL SHAREHOLDERS' MEETING CALLED TO APPROVE THE FINANCIAL STATEMENTS OF BANCA MONTE DEI PASCHI DI SIENA SPA, FOR THE YEAR ENDED ON 31 DECEMBER 2023 DRAWN UP IN ACCORDANCE WITH ARTICLE 2429, SECOND PARAGRAPH OF THE ITALIAN CIVIL CODE AND ARTICLE 153, FIRST PARAGRAPH OF ITALIAN LEGISLATIVE DECREE NO. 58 OF 24 FEBRUARY 1998

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Conclusions

Dear Shareholders:

Your Bank has operated during 2023 in a context that, in the Eurozone, was characterised by a restrictive monetary policy and, particularly in the second half of the year, by stagnant growth and a decrease in inflation due to the recomposition of energy prices in a geopolitical scenario affected by ongoing conflicts. This fuels uncertainty about future inflation dynamics, the start of monetary easing and growth prospects.

The favourable trend in interest rates and spreads, the streamlining of operating costs, the substantial stability of the cost of credit, the release of provisions for risks and charges, and the positive effect of deferred tax assets allowed the Company to return to profit and, ahead of the Plan's forecasts, to distribute a dividend, subject to authorisation by the European Central Bank (ECB), in a framework of capital strength at the top of the system, as also confirmed by the favourable outcome of the recent stress tests.

During the year, the Board of Directors and the Board of Statutory Auditors were renewed, in continuity with the roles of Chairman of the Board of Statutory Auditors and Chief Executive Officer /General Manager and with a change in the role of Chairman of the Board of Directors, through the appointment of Nicola Maione, Attorney, already in office as Director in the two previous mandates.

In 2023, the Bank continued to implement the activities aimed at achieving the objectives outlined in the 2022-2026 Business Plan “*A Clear and Simple Commercial Bank*” and in substantial compliance with the commitments assigned by the European Commission revised in October 2022.

In the context of these commitments, it should be noted in particular that, as disclosed by the Ministry of Economy and Finance (MEF), the latter has reduced its stake in the Bank from 64.230% to 39.232% after having successfully completed the sale of 314,922,429 ordinary BMPS shares, equal to 25% of the share capital, through an "Accelerated Book Building" reserved to Italian and foreign institutional investors.

On 28 February 2023, the shareholding in BMPS held by AXA SA rose from 7.947% to less than 3%.

The Financial Statements of the Parent Company BMPS show a profit for the year of EUR 2,021.5 mln and shareholders' equity of EUR 9,641.7 mln, while the Group's Consolidated Report shows a profit of EUR 2,051.6 mln and consolidated shareholders' equity of EUR 9,979.1 mln, respectively, before the loss and non-controlling interests of EUR 0.2 mln and EUR 0.6 mln, as analytically shown in the documents you are called upon to approve.

The Directors propose to allocate the net profit for the year 2023 as follows:

- (i) to the legal reserve in an amount equal to 10% of the accrued profit corresponding to EUR 202,152,501.67 in compliance with the provisions of Article 31 of the By-Laws;
- (ii) to the statutory reserve of an amount equal to 15% of the accrued profit corresponding to EUR 303,228,752.51, in compliance with the provisions of art. 31 of the By-Laws;
- (iii) to the unavailable reserve of an amount equal to EUR 52,696,808.33, in compliance with the provisions of Article 6 of Italian Legislative Decree 38/2005;
- (iv) to the non-distributable reserve in the amount of EUR 308,881,204.08, pursuant to the provisions of art. 26 paragraph 5-bis of Italian Law Decree no. 104 of 10 August 2023, converted with amendments by Italian Law no. 136 of 9 October 2023;

- (v) to cover previous net losses for an amount of EUR 354,598,588.77; these net losses are the result of the loss carried forward for EUR 232,747,069.96, following the resolution of the Shareholders' Meeting of 20 April 2023, and the net costs of EUR 121,851,518.81 charged directly to shareholders' equity in application of the international accounting standards IAS/IFRS;
- (vi) to the Shareholders, with distribution of a unit dividend of EUR 0.25 for each outstanding share, eligible for the payment of dividends, for a total maximum amount of EUR 314,922,426.50;
- (vii) the remaining profit to the extraordinary reserve for EUR 485,044,734.86.

With reference to this proposal to distribute profits to Shareholders, it should be noted that the European Central Bank, in December 2022, considering the successful completion of the capital increase carried out by the Bank in 2022, has removed the prohibition on the distribution of dividends, replacing it with the obligation for the Bank to obtain prior authorisation from the Supervisory Authority.

The proposal under (vi) therefore remains subject to authorisation by the ECB, to which an appropriate application has been submitted.

* * *

With this Report, the Board of Statutory Auditors provides the necessary information in accordance with the law, following the instructions set forth in Consob Communication no. 1025564 of 6 April 2001 and subsequent amendments and also taking into account the rules of conduct recommended by the National Council of Chartered Accountants (Consiglio Nazionale dei Dottori Commercialisti e degli Esperti Contabili - CNDCEC), recently amended and in force since 1 January 2024.

This Report, referring to the separate financial statements, also takes into account certain aspects discussed more extensively in the consolidated financial report, for a more complete analysis.

1. Activities of the Board of Statutory Auditors

It should be noted in advance that the Shareholders' Meeting, on 20 April 2023, confirmed Mr Enrico Ciai as Chairman of the Board of Statutory Auditors also for the 2023-2025 mandate, to appoint Ms. Lavinia Linguanti and Mr. Roberto Serrentino as Standing Auditors and Piera Vitali and Pierpaolo Cotone as Alternate Auditors.

With reference to the aforementioned appointments, to be noted is the resignation presented first by Piera Vitali, Alternate Auditor and, subsequently, by Prof. Roberto Serrentino, Standing Auditor.

Following these latest resignations, on 15 May 2023, Pierpaolo Cotone took over from Prof. Serrentino as Standing Auditor.

The Shareholders' Meeting was therefore convened pursuant to art. 2401 of the Italian Civil Code to provide to the necessary integration of the Board of Statutory Auditors, in compliance with the applicable provisions of law and the By-Laws and as fully described in the Directors' Report under item 5 of the agenda.

The Board of Statutory Auditors in office has verified, as the competent body pursuant to Ministerial Decree 169/20, the suitability and requirements of its members for the performance of the assignment as well as carrying out the necessary checks on the prohibition of interlocking, transmitting their results to the ECB.

This process ended with the positive decision of the ECB notified on 26.9.23.

This Report also refers to the oversight activities carried out by the Control Body in office during the period from 1 January to 20 April 2023.

Throughout the entire 2023 financial year, the Board of Statutory Auditors has fulfilled its institutional duties by holding a total of 45 meetings¹, properly convened and formed, protecting against any situations of conflict of interest, without exception. In particular, the Control Body in office until 20 April held 24 meetings¹, 7 of which were held remotely; the Statutory Auditors appointed by the Shareholders' Meeting of 20 April held 21 meetings¹. This Board of Statutory Auditors also participated in the only Shareholders' Meeting held during the year, all 16 meetings of the Board of Directors and those of the Board committees, constituted and operating according to the reference regulations.

On the occasion of the Board of Directors' meetings, the Statutory Auditors, inter alia, had the opportunity to review the reports containing the mandatory quarterly information required by law and the By-Laws.

From the start of the year until the date on which this Report was filed, 20 meetings¹ were held.

The Statutory Auditors also participated in the "*Board Induction*" training program for all representatives (Directors and Statutory Auditors) on the following topics: "Summary of the 2022-2026 Business Plan and the main 2023 Budget objectives", "Reformulation of commitments to DG Comp relating to the Restructuring Plan", "SREP (Supervisory Review and Evaluation Process) carried out by the ECB on the Bank", "Credit management: organisational structure, key factors and accountability", "Disclosure on extraordinary legal risks", "Adjustment related to the 40th update Circular 285", "Anti-money laundering controls in the MPS Group", "Sustainability", "Banking transparency", "Remuneration policies", "IT security" (all sessions were handled by the Bank Management) and "Italian Legislative Decree no. 231/01 - Administrative liability of entities and organisational model of the Bank" (managed with the support of external advisors).

When expressly indicated by rules, the Board of Statutory Auditors has issued the mandatory opinions. In addition, it has provided specific considerations, observations and comments and has formulated proposals on issues as required by Supervisory Authorities, both domestic and European (refer to paragraph 1.2).

The Board of Statutory Auditors has received from the Control Functions, with the established frequency and with the necessary promptness for urgent cases, the required information flows that were systematically reviewed during its meetings which were typically attended by the Managers of these Functions and their direct collaborators to ensure the necessary level of details on the topics brought to the attention of this Control Body. Meetings were also regularly held with the Managers of the Bank's other head office units, both to inform them more directly about the areas of attention that have emerged from time to time in performing the supervisory activities of the Board and the Control Functions, and to be informed by them, each for the aspects falling within their

¹ "Meetings" refers to meetings and/or the issuance of mandatory opinions, observations/determinations and considerations of the Board of Statutory Auditors, as further detailed in paragraph 1.2.

areas of competence, on the implementation of the agreed improvement/corrective actions, or on updates on the remedial activities implemented.

The Statutory Auditors have conducted specific in-depth analyses during the course of the year both on issues considered particularly significant for the Bank and the Group and on what has emerged from the inspection activities carried out by the Supervisory Authorities, both domestic and foreign, and in relation to the implementation of strategic operations undertaken by the Company.

In this context, particular importance was attributed to the overall initiatives related to the implementation of the 2022-2026 Business Plan "*A Clear and Simple Commercial Bank*" (approved at the Board meeting of 22 June 2022) in order to verify the achievement of the strategic guidelines contemplated therein, i.e. the setting of the Plan's objectives.

In particular, specific attention was paid by this Control Body to the simplification and optimisation initiatives of the Group's organisational structure, as key actions of the aforesaid Plan which started in December 2022 with the incorporation into the Parent Company MPS of Consorzio Operativo Gruppo MPS and continued in 2023 with the mergers into BMPS of the subsidiaries MPS Leasing & Factoring (MPS L&F) and MPS Capital Services (MPSCS), which took place on 24 April and 29 May 2023, respectively. In this context, in addition to the regular discussions and in-depth analyses carried out with the contact persons of the competent Structures, specific checks were carried out with the assistance of the Audit Function (see paragraph 1.1), which made it possible to obtain information on the regular development of the migration activities and on the operational continuity of the structures subject to integration.

At the same time, specific analysis activities concerned the issue of the outflow of resources as a result of the early retirement plan implemented between the end of 2022 and the beginning of 2023, with a specific focus on the Corporate Control Functions: the information acquired made it possible to note that the outflows occurred were adequately absorbed with the achievement of the expected level of performance, suitable for the achievement of the planned objectives.

With regard to relations with the Supervisory Authorities, to be noted is the analysis carried out on the SREP decision (draft and final versions) - preceded, as usual, by the Follow-up letter (draft and final) duly notified by the ECB during the year - and the monitoring of the remedial actions resulting from the On Site Inspections (OSI) conducted so far by the Supervisory Authority for which, in 2023, the related finalisation activities continued.

For more details on activities of this type, please also refer to the specific section dedicated to "Audits by Supervisory Authorities" (paragraph 5.2).

Lastly, particular attention was given to monitoring the commitments undertaken by the Bank with Supervisory Authorities regarding all remediation activities identified to resolve the various findings presented by them, and all regularly developing initiatives intended to resolve the gaps identified by the control functions in the course of their overall audit activities.

Direct audits were also carried out on central processes and the domestic network, which are reported on in more detail later in this Report.

The minutes of the Board of Statutory Auditors meetings which provide an account of the aforementioned activities, in relation to the different relevant areas, were sent to the attention of the Chairperson of the Board of Directors and the Chief Executive Officer/General Manager and, for the aspects strictly under their responsibility, the Chairpersons of the Board Committees.

For purposes of monitoring financial reporting processes, the Board of Statutory Auditors has regularly met with both the Financial Reporting Officer and the independent auditors PricewaterhouseCoopers Spa (PwC), appointed for the nine-year period 2020-2028; with the latter, to enable the normal exchange of information, pursuant to art. 150 of Italian Legislative Decree no. 58/98 (Consolidated Law on Finance).

With reference to the auditing of the accounts, it is worth noting, in particular, the proposal that this Board of Statutory Auditors submitted to the Board of Directors during the year concerning the request for the integration of the fees for additional and supplementary auditing activities with respect to the independent auditor services, which were included in the initial proposal for the appointment approved by the Bank's Shareholders' Meeting on 11 April 2019. These additional activities entailed a greater commitment for the Independent Auditors, both in qualitative and quantitative terms, and refer to adjustments of a technical/informative nature and additional auditing activities, which became necessary as a result of the changed reference framework both externally (laws and regulations) and internally (organisational structure of the Group).

These activities entail an increase in fees quantified for each year, from 2023 to 2028, at EUR 95,000.00 (application of EU Delegated Regulation 2019/815 - ESEF Regulation and additional activities following the mergers by incorporation of the Consorzio Operativo Gruppo MPS, MPS L&F and MPSCS) in addition, for the year 2023 alone, EUR 30,000.00 for the commitment relating to the audit procedures relating to the IT migration processes of the merged companies MPS Leasing & Factoring and MPS Capital Services.

The Chairman of the Board of Directors will report on these activities and the resulting increase in fees at the Shareholders' Meeting called to approve the Financial Statements as at 31.12.23.

As required by art. 151 of Italian Legislative Decree no. 58/98 and the Supervisory Instructions of the Bank of Italy, specific meetings were held with the Boards of Statutory Auditors of the main subsidiaries in order to exchange information on the activities carried out as specified in paragraph 5.1 below.

There was a similar, proactive exchange of information with the 231/01 Supervisory Body, which it met with regularly throughout the year for discussions on topics of reciprocal interest.

Constant attention has been paid by this Control Body to the issue of dissemination of the risk culture, with particular reference to the audits conducted by Internal Audit on behalf of the Board of Auditors at the Peripheral Network aimed at assessing the degree of effectiveness of the territorial oversight on the proper management of operations, risks and controls under its responsibility, while at the same time disseminating, at the various levels of the local structures, the “culture of risk and control”.

* * *

1.1 Result of the audit activities conducted directly by the Board of Statutory Auditors

As part of the overall activities carried out by the Board of Statutory Auditors to perform the supervisory tasks required by the reference regulations, the audits carried out during the year, mainly with the collaboration of the Internal Audit Function, as well as the other Control functions, are of major importance.

Specifically, these are audits falling within the broader context of the Audit Plan, which respond to the necessity of the Board of Statutory Auditors to directly investigate the issues that year by year are considered of greater importance and of primary interest.

For 2023, with the assistance of the Chief Audit Executive (CAE), 20 audits were carried out, of which no. 19 on the Head Office Structures and no. 1 on the Peripheral Network.

In particular, the audits that concerned the head office structures made it possible to investigate specific areas, deemed particularly significant by the Board of Statutory Auditors, relating to the following processes:

- **Credit** (no. 5): *Credit file review* 1st half of 2023; Management of the credit portfolio 2023; Management Transfer to losses; LOM -Valuation of collateral; Credit Policies;
- **Combating money laundering and terrorist financing** (no. 2): Group QAR AML: Outcomes and implementation of the centralisation of the BMPS Anti-Money Laundering Function; Group QAR AML: Results and grounding of the centralisation of the Widiba Anti-Money Laundering Function;
- **Strategic Planning** (no. 3): Multi-Year Planning Projection Models; Organisational Models and Structures-Business Plan Impacts; Business Plan Initiatives-Full Potential Commercial Small Business;
- **Controls of outsourced activities** (no. 1): Credit card management (Nexi);
- **Security** (no. 2): Management of BMPS IT vulnerabilities; Management of external access to company applications;
- **Post integration operations** (no. 4): Former MPSCS Financial Operations Integration; New Dod-Incorporation Legal Entities; MPSCS Credit Processes Integration; Post Integration ICT Service Delivery: service level assessment;
- **Data Governance and ICT** (no. 2): Management of IT expenses ICT Master Plan; Data Governance Management System.

Alongside the aforementioned audit activities, in line with the usual assessment scale divided into four levels of increasing criticality "R1-Green", "R2-Yellow", "R3-Orange" and "R4-Red", substantially positive judgements ("R1-Green" and "R2-Yellow") were attributed with reference to 17 interventions; for 2 interventions a "R3-Orange" rating was assigned (no R4-Red). Focusing on the latter 2 interventions on "Provision of post -integration ICT services" and "Data Governance", the main elements of attention that emerged are outlined.

The first audit ("ICT service delivery post integration") is part of the broader implementation process of the 2022-26 Business Plan, focusing on the major transformation that has affected the management of the Group's information system, following the merger into the parent company BMPS of three major subsidiaries (Consorzio Operativo Gruppo MPS, MPS Leasing & Factoring and MPS Capital Services). The objective pursued was to assess the capacity of the new IT Function, to which all responsibilities for the management of the information system were reallocated, in order to evaluate the level of service provided, while also ascertaining the continued existence of adequate levels of stability, performance and availability of IT services.

In a context of significant complexity, the IT Function has demonstrated strong resilience in the management of services, also carrying out in the first months of 2023 all the technical activities necessary for the completion of the merger transactions of the Group Companies concerned; the levels of service provided were mainly in line with the pre-incorporation values.

However, certain elements of attention connected with the management of the overall reference contracts were identified. In this regard, in fact, although no major disruptions and/or interruptions in service provision have occurred to date, a significant increase in the backlog of expired ICT Master Plan operating contracts has emerged. In relation to this, a specific remediation plan was defined aimed at eliminating the current backlog and planning the necessary activities to promptly manage expiring contracts.

In this regard, this Board of Statutory Auditors, in addition to following the development of the aforementioned Plan, reiterated the need to ensure constant and close monitoring of both expired and soon-to-be expired IT contracts, taking care to adequately manage any anomalies in relations with suppliers under negotiation/contracting, which could lead to interruptions in services or supplies and consequent critical issues in the Bank's operations.

The audit on the Data Governance Management System was aimed at assessing the design of the Data Governance model and ascertaining its implementation, reconstructing the practices implemented and the effective use of the supporting tools.

The audits carried out revealed a Data Governance Model that needs to be completed, as it is not pervasively spread throughout the corporate structures, through process regulations and the support of technical tools.

The Board of Statutory Auditors therefore acknowledged the precise breakdown of the remedial actions identified for the purpose of overcoming the evidence found, reaffirming the need to give the highest priority to the finalisation of the relevant initiatives by the owner Functions within the established resolution timeframe. This is also in consideration of the particular attention given by the Supervisory Authority to Data Governance, which is an increasingly recurring issue in the reports and indications provided by the Authorities (SREP Decision).

At the peripheral level, given the strategic value of consumer financing products, a specific audit was then carried out, again with the support of the Internal Audit Department, aimed at providing assurance regarding the MPS Network's operations on the level of compliance, adequacy and overall monitoring of the risks assumed in the "Management of placement of consumer financing products" and "Consumer Credit Concession" processes.

In this regard, an overall positive situation was noted, characterised by a clear and precise assignment of roles and responsibilities and adequate management of monitoring activities on product placement and on the loan portfolio.

The Rating given alongside the afore-mentioned audit was, in fact, 'R1-Green', with the identification of certain elements of low relevance concern, mainly of a documental and behavioural nature, some of which had already been overcome in the audit phase, and the sharing of recommendations to be implemented to streamline specific aspects of the operations in question.

* * *

When the above-mentioned audits were completed, the concerning elements identified were appropriately shared with the respective owner Functions for the development of the ensuing remedial actions, subject to the usual monitoring by the Audit Function. The implementation of these actions is also the purpose of systematic monitoring carried out by this Control body, through

a precise analysis of the special reports and plans prepared and made available for this purpose (Quarterly report, Gap Execution plan).

Focus on Credit risk

In continuity with previous years, also for 2023 the Board of Statutory Auditors kept its focus on the credit management process and, more generally, on the evolution of credit activities, as the Group's core business; this in order to gain an understanding of the adequacy of the systems and procedures aimed at guaranteeing effective credit risk management. With this in mind, compliance with the targets defined in the credit strategies and the management actions identified by the competent Functions to mitigate the risk profile were observed, while reviewing the management actions identified by the competent Functions for the mitigation of the risk profile and while verifying the regular progress of the process for the implementation and strengthening of the overall credit risk control system, capable of integrating early warning systems (EWS) and improving the assessment and monitoring mechanisms, extending it to the Group's banking activities.

Specific analyses and reflections were conducted on the impacts arising from the broader external context, where, in fact, the growth in both inflation and interest rates, as well as the continuation of international geopolitical tensions with the related effects in terms of security and costs on international trade, could affect the ability of the Group's customers to honour their commitments and consequently determine a significant worsening in credit quality.

Hence the need to intensify the initiatives and activities aimed at monitoring post -disbursement in order to be able to promptly identify positions that show signs of impairment of various amounts and guarantee the containment of the cost of credit and the flow of default, including therein the timely updating of appraisals.

This, moreover, is in line with the expectations of the Supervisory Authority which, on several occasions, has taken the opportunity to reiterate the importance to be attributed to the prevention and management of situations of difficulty of companies and individuals, as well as to the assessment of guarantees, public and real estate, and to the integration of climate and environmental risks in credit management.

More details on the evolution of the overall activities and initiatives implemented for this purpose by the competent Functions of the Bank, including the development and analysis processes aimed at monitoring credit risk, were acquired by the Board of Statutory Auditors during the systematic meetings and hearings held in the course of the year, both with business and control functions. Reference is made, inter alia, to the meetings held with the Chief Lending Officer (CLO), mainly aimed at reviewing and commenting on the evolution of credit aggregates and the trend of *performance* indicators, and to the meetings held with the Chief Risk Officer (CRO) more focused on the quantitative aspects of risk measurement and related models.

In this regard, as from the first quarter of 2023, the CRO started the preparation of a specific quarterly report on “Second-level credit controls” aimed at presenting the results of the audits conducted in Credit File Review (CFR) mode, in compliance with the annual program of second-level controls on credit exposures. *The same report responds to a specific observation of the ECB, which in the context of the audit report following the audit it conducted on the Corporate and Small business credit processes (21.4-19.8.22) pointed out the need to ensure more precise reporting to the Board of Directors on the results of the audits carried out by the Control Functions, in particular as regards the Risk Management CFR analyses.*

In relation to the aforementioned ECB audit, the Board of Statutory Auditors reviewed the Follow-up Letter received from the ECB during the second half of the year, taking note of the specific Action Plan defined by the competent Functions, currently under implementation, and subject to constant monitoring by the Statutory Auditors.

Moreover, the main changes characterising lending activities are also analysed together with the Financial Reporting Officer, as well as with the independent auditors, in order to also acquire the results emerging from the respective control activities on the subject.

Finally, as a third level of control, the audits carried out on the overall credit sector by the Audit Function have confirmed the need to pursue a continuous and accurate monitoring of retail real estate credit by the competent Functions (Credit and Commercial) in order to promptly identify signs of difficulty in the ability of borrowers to repay and thus to activate the most appropriate actions to avoid its definitive deterioration.

Some of the aforementioned audits were conducted to assist this Board of Statutory Auditors, as detailed in the appropriate section (see paragraph 1.1). Given the relevance of the issue at stake here, for the reasons stated above, also in the context of the definition of the Audit Plan 2024, the Board of Statutory Auditors has explicitly asked the Internal Audit Function to consider, in the broader Plan of Audits, specific reviews on credit processes.

1.2 Mandatory opinions, comments/determinations and considerations issued by the Board of Statutory Auditors

The Board of Statutory Auditors has been asked to issue the following declarations that governing regulations and Supervisory provisions assign to its competence:

- *Activity carried out until the date on which the Report to the Financial Statements at 31 December 2022 is filed (27 March 2023)):*

Mandatory opinions:

- 2023 activity plan for the Audit function;
- compliance with the requirements for the continuous use of advanced credit risk management systems (AIRB) and operational risk management systems (AMA);
- 2023 Phantom shares plan for the Chief Executive Officer and General Director.

Considerations:

- controls performed by Internal Audit on the outsourced operating functions.

Comments/Determinations:

- controls carried out by the Compliance, Risk Management and Audit Functions regarding the provision of investment services to customers.

- *Activity carried out from the date on which the Report to the Financial Statements at 31 December 2022 (27 March 2023) is filed, until 31 December 2023:*

Mandatory opinions:

- report on ICAAP (Internal Capital Adequacy Assessment Process) and ILAAP (Internal Liquidity Adequacy Assessment Process);
- remuneration for the components of the Board Committees;
- remuneration for the Director member of the Supervisory Board 231/01;
- revision of the Covered Bond issue programs and adjustment to the New Regulatory Framework;
- update of delegated powers pursuant to art. 36 of Italian Legislative Decree no. 231/2007 and subsequent amendments and integrations with regard to "notifications of suspicious transactions";
- additional assignments to the Independent Auditors (or to Companies belonging to said network), pursuant to Regulation (EU) no. 537/14 and Italian Legislative Decree no. 39/10 amended by Italian Legislative Decree no. 135/16;
- appointment of the Group Anti-Money Laundering Manager.

Proposals

- addition to the consideration concerning additional and supplementary audit activities with respect to the legal audit, approved previously by the Shareholders' Meeting, submitted by the Independent Auditors.

➤ *Activity carried out as of 1 January 2024 and until the date on which this Report was filed:*

Mandatory opinions:

- revision of the limits for transactions with Related Parties, as part of the broader Group Risk Appetite Statement (RAS) 2024 proposal;
- 2024 activity plan for the Audit function;
- compliance with the requirements for the continuous use of advanced credit risk management systems (AIRB) and operational risk management systems (AMA);
- approval of the 2023 bonus granted to the Chief Executive Officer and General Director;
- 2024 incentive scheme and phantom shares for the Chief Executive Officer and General Manager.

Considerations:

- controls performed by Internal Audit on the outsourced operating functions.

Comments/Determinations:

- controls carried out by the Compliance, Risk Management and Audit Functions regarding the provision of investment services to customers.

2. Observations on compliance of the principles of correct administration

2.1 Significant transactions and events

The Board of Statutory Auditors has continuously monitored the most important economic, financial and asset operations carried out by the Bank, developing a process of constant and beneficial dialogue with the various corporate Functions involved, within the scope of their respective competences.

On the basis of the main evidence acquired in the performance of its duties, certain events deemed most significant have been identified, taking into account their relevance in the context of the assessments relating to the Bank's financial and economic position and the consistency of the management decisions made.

Although explained in detail in the Report on Operations of the Group prepared by the Directors (to which reference is made), it is considered appropriate to highlight the significant ones that have characterised the year 2023, as well as the first months of 2024.

Rating assessment

The structural improvements achieved by the Bank, also following the completion of the capital increase in November 2022, which was followed by the strengthening of capitalisation levels and the finalisation of the implementation of important measures under the Business Plan, also taking into account the Bank's greater capacity to generate profits, the reduction of its risk profile and the regained access to the bond market, led the Rating Agencies to improve BMPS' rating in 2023.

Scope of consolidation

In line with the implementation of the 2022-2026 Business Plan, the Group structure streamlining project, already launched in December 2022 with the incorporation of the Consorzio Operativo Gruppo MPS, continued in 2023.

On 24 April 2023 and 29 May 2023 respectively, the mergers by incorporation into the Parent Company MPS of the two wholly-owned subsidiaries, MPS Leasing & Factoring S.p.A. and MPS Capital Services Banca per le imprese S.p.A., were finalised.

Both transactions took effect for accounting and tax purposes from 1 January 2023 and took place according to the simplified form envisaged for wholly-owned companies.

The transactions had no impact on the financial position of the MPS Group as they were recognised in the Financial Statements of the Parent Company, adopting the principle of accounting continuity in reference to the figures resulting from the Group's Consolidated Financial Statements at the date of transfer of the assets.

These operations, aimed at achieving significant benefits in terms of revenue synergies and expenditure optimisation as well as speeding up decision-making processes, have been the subject, as they are considered particularly relevant, also with reference to the consequent migration activities, of careful monitoring and specific checks also by the Statutory Auditors, as referred to in paragraph 1 above.

Credit strategies and derisking initiatives

On 20 February 2023, the Board of Directors has approved the new credit strategies, which were developed within a macroeconomic and geopolitical scenario in which credit risk was expected to

increase, with a restrictive monetary policy leading to a slowdown in inflation and "pressure" on credit interest rates.

In order to maintain a high level of asset quality, the planned growth in lending has focused on commercial operations, with a view to debt sustainability, through the strengthening of exposure restructuring initiatives.

During 2023, the integration of the sustainability factors also into the Group's credit strategy has taken significant steps towards achieving the objectives set by the 2022-26 Business Plan. In general, specific Environmental Social and Governance (ESG) guidelines were provided in order to mitigate transition risk (ESG), steer the flow of capital and accelerate the transition to sustainable development models and low-emission economies while contributing to increasing the competitiveness and resilience of companies and enhancing the welfare of society as a whole.

System derisking initiatives

At the proposal of IVASS, on 29 March 2023, the Minister for Enterprise and Industry ordered the extraordinary administration of the company Eurovita Spa, following which, on 30 June, an agreement was reached between the five leading Italian insurance companies, twenty-five banks distributing Eurovita policies and some of the main Italian banking institutions including BMPS, on a system operation aimed at protecting Eurovita policyholders.

Banca MPS has shared the above-mentioned "system" solution both directly, in negotiation of the pool loan, for the portion made available by the system banks, and indirectly, through the subsidiary Banca Widiba Spa, as placement bank for the Eurovita policies (essentially Class III) with its customers.

Stress Exercises

On 28 July 2023, the ECB published the results of the EU-wide stress test 2023, in which the Montepaschi Group has also participated.

The Group's results do not take into account, due to methodological constraints and as stated in the note by EBA, the benefits - in terms of higher profits and capital generation - from the reduction in personnel costs of EUR 857 mln in the period 2023-2025 due to the exit of over 4,000 staff.

The results of the stress test exercises confirm the strong solidity achieved by the Group and its ability to generate sustainable profitability as evidenced by positive net results in the years 2024 and 2025, even in the adverse scenario, factoring in the reduction of personnel costs.

Banca MPS was also selected, along with 108 other Banks subject to direct supervision by the ECB, to participate in the "Cyber Resilience Stress Test 2024", aimed at assessing digital operating resilience at the occurrence of a serious cyber security threat. The test provides for two levels of intensity, in line with the principle of proportionality; the highest rate concerns 28 relevant banks, including BMPS, and differs in the depth of the test in terms of evidence required and in the on-site validation (quality assurance).

The stress test scenario assumes that an attack will disrupt the Bank's business continuity, which will then test its response and recovery measures, including the activation of procedures and contingency plans and the restoration of normal operations.

The outcome of the financial year will be communicated to the Bank by the third quarter of 2024.

The Board of Statutory Auditors asked management to receive periodic updates in order to continue monitoring the stress exercise and feedback from the Supervisory Authority.

Liquidity and Funding Strategy

The balance sheet as at 31 December 2023 confirms a particularly robust liquidity profile for the Group, and the sustainability of the funding profile also remains high, as confirmed by the levels of the medium-/long-term liquidity indicators.

In line with the objectives of the 2023 funding plan and in compliance with the MREL (Minimum Requirement for own funds and Eligible Liabilities) targets, the Bank has improved its funding profile, reactivating access to the bond market by realising 2 placements for a total of EUR 1.25 bln:

- on 23 February 2023, the Bank has carried out a Senior Preferred issue with a three-year maturity (repayable in advance after two years) for a total amount of EUR 750 mln;
- on 29 August 2023, the Bank concluded the placement of a Senior Preferred bond issue with a maturity of 4 years, for an amount of EUR 500 mln.

Given the planned maturities, which in the three-year period 2023-2025 are mainly the TLTRO III (Target Longer-Term Refinancing Operations) auctions, the Group's funding strategies aim to maintain liquidity indicators at adequate levels, broadly above regulatory limits, as well as to ensure, with particular reference to public bond issuance plans, the constant fulfilment of MREL requirements.

On 8 March 2024, the Bank successfully concluded the placement of a new unsecured Senior preferred bond issue with a maturity of 5 years for an amount of EUR 500 mln, at an improved rate compared to previous issues.

MREL Capacity

The MREL requirement, which from 1 January 2024 will be binding for significant Italian banks, contributes positively to the privatisation of losses in the event of a banking crisis, but at the same time affects the structure of funding and thus also the composition of banks' lending.

As of 31 December 2023, the Group's MREL requirements were higher than the projected interim figures for 2023:

On 20 December 2023, the Bank has received from the Bank of Italy, in its capacity as Resolution Authority, the MREL Decision 2023 of the Single Resolution Committee on the determination of the minimum requirement of own funds and eligible liabilities.

As at 1 January 2024, the Bank must meet, on a consolidated basis, the new targets and in particular an MREL of 24.07% in terms of TREA (Total Risk Exposure Amount), to which the Combined Capital Reserve Requirement (CBR) of 2.52% and 6.05%, in terms of LRE (Leverage Ratio Exposure Measure), must be added. In addition, there are subordinated MREL requirements, which must be met with own funds and subordinated instruments, equal to 14.71% for TREA, plus the CBR applicable on that date, and 6.05% for the LRE.

* * *

Overall, given the planned maturities, the Group's funding strategies, defined in line with the Risk Appetite Statement (RAS) and outlined in the Funding plan, aim to maintain liquidity indicators at adequate levels, well above regulatory limits, as well as to ensure that MREL requirements are met.

SREP and Capital Requirements

On 4 December 2023, the Bank, at the conclusion of the annual prudential review and assessment process conducted in 2023 with reference to the date of 31 December 2022 and any other relevant information received thereafter, also taking into account the positive results of the EBA Stress Test conducted in 2023, received notification of the European Central Bank's final decision regarding the capital requirements to be met on a consolidated basis from 1 January 2024.

With reference to the Pillar II Capital Guidance P2G, the ECB expects the Bank to maintain the 1.15% requirement as of 1 January 2024, on a consolidated basis, down significantly from the 2.50% level in 2023, to be fully met with Common Equity Tier 1, in addition to the overall capital requirement. Furthermore, as a result of the process carried out by the Bank of Italy to identify the national systemically important institutions (O-SII) authorised in Italy for 2024, the Bank is no longer identified as an O-SII and therefore, starting from 1 January 2024, the request for an additional capital reserve of 25 bps lapses.

As of 1 January 2024, the Bank must maintain, on a consolidated basis, a TSCR level of 10.75%, unchanged from 2023, which includes a minimum Pillar 1 requirement of 8% under art. 92 of the CRR (Capital Requirements Regulation) and an additional Pillar 2 requirement of 2.75% to be met for at least 56.25% with CET1 and at least 75% with TIER 1.

Significant events after the end of the 2023 financial year

No significant events have occurred after the end of the year, other than those already described in this Report.

Other relevant matters

In general, the Group has fulfilled the majority of its commitments by successfully undertaking the activities necessary to achieve all the targets assigned under the commitments already set forth in the previous 2017-2021 Restructuring Plan and revised in 2022 by the European Commission, following the approval of the 2022-2026 Business Plan.

With regard to the commitment on the sale of real estate, the process of collecting offers for the real estate to be divested was extended, in order to improve the economic conditions, beyond the assigned deadline, while in relation to the commitment on the number of branches, it should be noted that, in January 2024, the process of closing 50 branches was completed; therefore, the current number of branches is down to 1,312.

With reference to the commitment of the Italian Republic to sell its equity investment in the Bank's share capital, as already mentioned, on 20 November 2023, the Ministry of Economy and Finance announced that it had successfully completed the sale of a number of ordinary shares of the Bank, equal to 25% of the share capital through an *Accelerated Book Building* reserved for Italian and foreign institutional investors. Following this transaction, the equity investment held by the MEF in BMPS fell from 64.230% to 39.232% of the share capital.

2.2 Intra-group transactions, with related parties, atypical or unusual transactions, and those falling within the obligations of banking representatives

The Bank strictly adheres to governing provisions regarding transactions with related/associated parties, obligations of banking representatives, managers' transactions, personal transactions, and significant equity investments, also in view of its current nature of significant public participation. In fact, the issue of associated entities and related parties required a significant evolution in consequence of the entry of the MEF in the Bank's share capital. Specifically, in the case of risk assets assumed with respect to the Ministry of Economy and Finance and if it is a related party, the risk assets held with respect to parties connected to the Ministry are not added to the risk assets held with respect to the Ministry itself, by virtue of a systematic interpretation of the supervisory rules within the European regulatory framework. As a result, in these cases as many separate groups of connected customers are identified as there are the companies directly controlled by the Ministry (so-called "silos" approach); these groups also include the respective direct and indirect subsidiaries. The Ministry instead constitutes a distinct related party.

During 2023, no transactions that could be defined as atypical or unusual were carried out by the Bank with third parties, with Group companies or with related parties. The intercompany and related party transactions carried out during the year were deemed appropriate, compliant with the reference regulations and in the interest of the Bank and the Group. Transactions in potential conflict of interest were resolved upon in compliance with the relevant internal and external regulatory provisions and were also the subject of specific attention, monitoring and, where required, specific review by the Committee for Transactions with Related Parties.

The Board of Statutory Auditors has acknowledged the disclosures made during 2023 by the Bank to the Market and Consob, in accordance with the pro tempore regulations in force and on the basis of the information received from the interested parties, concerning any transactions carried out by the Parent Company's corporate officers (Directors, Statutory Auditors, Key Executives and Persons closely related to them), also through third parties, concerning financial instruments issued by the Bank (such as shares and debt instruments) or other financial instruments linked to them (such as derivatives).

This Control Body has constantly monitored, with the support of the relevant Functions, compliance with regulatory and management limits; the latter, established by the Board of Directors, take on, within the Group's Risk Appetite Framework (RAF), the significance of risk tolerance and risk capacity at consolidated and individual level on individual related parties, which are added - with a view to preventing overruns - to the prudential limits set by Bank of Italy Circular 285/13.

In this regard, in January 2024, in line with the Supervisory Provisions and the Bank's internal rules, in order to ensure greater consistency with the limits on individual related parties, the Board of Directors, with the favourable opinion of this Control Body, revised the risk tolerance and risk capacity thresholds of the "Total exposure on own funds" indicator in a more prudential manner. The Board of Statutory Auditors has acknowledged that Part H of the Notes to the Consolidated Financial Report as at 31 December 2023, to which reference is made for a more in-depth analysis of such operations, includes the information concerning transactions with related parties, pursuant to art. 5, paragraph 8 of the Consob Regulation containing the provisions on transactions with related parties adopted with resolution no. 17221/2010, as amended, governing "Public disclosure on transactions with related parties".

Transactions with related parties include, as at 31 December 2023, subject to the favourable opinion of the Related Party Transactions Committee, the Bank's acceptance of the proposal put forward by Anima Holding Spa, a related party as defined in Consob Regulation No. 17221/2010, as it is an associate of Poste Italiane Spa, which in turn is controlled by the MEF, for the signing of an agreement relating to the confirmation and stabilisation of the fee regime in force was authorised for the placement of asset management products of the Group headed by Anima Holding Spa.

It should also be noted that during the second half of 2023, the Board of Directors, with the favourable opinion of the Committee for Transactions with Related Parties and the Risk and Sustainability Committee, resolved on a transaction pertaining to the Socrates Fund aimed at optimising the disposal of all the remaining real estate assets of the same Fund, with the use of the available liquidity for the final redemption to retail investors, while institutional investors contributed their shares to the newly established Fund called Democrito, upon authorisation by the Bank of Italy. These new shares were entered by the Bank in the equity investments of associates.

* * *

In the opinion of this Board of Statutory Auditors, based on the information received, both directly and through participation in meetings of the Board of Directors and the competent Board Meetings, both the transactions specified above and those of an ordinary nature were carried out in full compliance with internal procedures and principles of proper administration, with the awareness of the risk and the effects of the decisions taken, and are adequately described in the Bank's Consolidated and Separate Financial Report as at 31 December 2023. The same transactions were found to be congruous and in the interest of the Bank and/or the Group and no critical issues were reported by the company's Functions with respect to regulatory constraints, either with reference to internal management limits or with reference to external prudential limits.

It is therefore confirmed that the principles of proper administration have been consistently applied.

3. Supervisory activities

3.1 Supervisory activities on the adequacy of the internal control system

➤ The Internal Control System (ICS)

The Internal Control System (ICS) adopted by the Montepaschi Group comprises a set of rules, functions, structures, resources, processes and procedures which aim to ensure sound and prudent company management.

Pursuant to the Supervisory Provisions for Banks (Circular no. 285 of Bank of Italy), the Board of Statutory Auditors is tasked to supervise the "completeness, adequacy, functionality and reliability of the internal control system and of the RAF".

For the purposes of the Internal Control System, in the Group's approach all the Corporate Functions are responsible for ensuring the adequate and correct implementation and have the

direct responsibility of the processes under their competence in terms of monitoring, improvement and correct operation with respect to the expected results, as well as for the management of risks and their relative controls.

More specifically, in line with the already mentioned Circular of the Bank of Italy, the Bank has set up the following permanent and independent corporate Control Functions:

- Compliance Function;
- Risk Control Function;
- Internal Validation Function;
- Anti-money Laundering Function;
- Internal Audit Function.

The first four relate to second level controls, and Internal Audit to third level controls.

The Board of Statutory Auditors has established a constant exchange of relevant information with the aforementioned Control Functions during the reporting period, taking note of the individual evaluations issued by them, of the points of attention highlighted and of the consequent remedial actions taken. It also states that, to the extent of its knowledge, the same control Functions have fulfilled the related information obligations with respect to the Statutory Auditors.

In particular, the analysis and assessment of the information flows that were made available, together with the in-depth analyses conducted during its meetings, enabled this Control Body to ascertain that the overall layout of the ICS and the Functions involved in it were in line with the directions and expectations provided by the Supervisory Authority from time to time, as well as with the Bank's strategic objectives.

The need to ensure an ever greater and more widespread dissemination at all levels of the organisational structure of the **culture of risk and control**, which, moreover, has been the subject of increasing attention in recent years by International Bodies and Supervisory Authorities, has been stressed on several occasions; this is based on the assumption that the awareness of risks and the proper knowledge and application of the processes and internal models to monitor the risks are the fundamental prerequisite for an effective, sound and prudent company management. This includes, among other things, the dissemination of the culture of risk and control that, in continuity with the similar activities carried out in previous years, will be undertaken by the Board of Statutory Auditors in the first half of this year, with the support of the competent Functions of the Bank (Commercial, Credit and Audit), aiming precisely at promoting the culture of risk and control at the various levels of the territorial structures.

In compliance with the aforementioned responsibility to supervise the functionality of the overall system of internal controls, specific attention was paid by the Board of Statutory Auditors to the overall process of **implementation of the 2022-2026 Industrial Plan** ("*A Clear and simple commercial Bank*" approved, as mentioned, by the Bank's Board of Directors on 22 June 2022) with regard in particular, to the implementation of the initiatives to streamline the organisational structure and rationalise the industrial model set forth in the Plan itself, with a view to verifying the monitoring of business and strategic risk, i.e., the maintenance of the service levels and effectiveness of the operational processes implemented. Reference is made, inter alia, to the mergers by incorporation into BMPS of the subsidiaries MPS L&F, MPSCS and Consorzio Operativo Gruppo MPS and the consequent organisational review interventions carried out both at the level of the Head Office Structures and those of territorial coordination.

The overall aspects relating to **post-integration operations** and, more generally, to the Plan initiatives, were the subject of analyses and in-depth assessments carried out with the representatives of the competent Functions and with the Chief Executive Officer, also in his capacity as Director in charge of the Internal Control System, as well as of specific audits carried out by the Board of Statutory Auditors with the cooperation of the Audit Function, the details of which are reported in the relevant section (see paragraph 1.1).

In addition to the aforementioned internal developments, the overall control activities have been affected by the changing external - regulatory and non-regulatory - environment, which has required the constant adjustment of controls, i.e., the implementation of controls, to ensure compliance and conformity with reference regulatory provisions as well as the coverage of new emerging risks (e.g., climate risks, ESG, etc.); this is evidenced by the integration of sustainability factors in the Group's strategy and the consequent implementation of most of the initiatives identified in the Sustainability Plan.

This also includes the developments related to the digitalisation of the sector, which require the necessary alignment of information systems in terms of organisation, infrastructure, applications and security in order to protect systems, networks and programmes and to intercept events that could compromise the integrity and availability of corporate information in a timely manner.

In the latter regard, to be noted are the specific in-depth studies conducted by the Board of Statutory Auditors on the "Data Governance" or "Data Management System" process - also the subject of an audit conducted with the assistance of the Audit Function (see paragraph 1.1) - aimed at assessing the relative level of adequacy in terms of the storage, use, distribution and quality of corporate information in order to correctly and promptly oversee the Group's information assets.

The creation of a valid data management process - as repeatedly reiterated also by the ECB - is indispensable for complying with regulations, adequately managing risks and producing value for the Bank; this is based on the assumption that reliable, usable and readily available data enables the bodies in charge to identify the most suitable actions for defining the best strategies for achieving corporate objectives, while also representing a fundamental lever for the innovation and modernisation of the banking business itself.

Hence, therefore, the importance that the issue of "Data Governance" has assumed in the overall supervisory activities of the Board of Statutory Auditors, from which it has been possible to take note of the initiatives planned by the competent Functions (i) for the resolution of the elements of attention that have emerged from the aforementioned audit, including among other things, the organisational change through which the Data Governance Function was placed under direct reporting to the Chief Financial Officer, so as to strengthen its centrality and independence, and (ii) for the alignment to the regulatory provisions, among which are the Principles established by the Basel Committee - the so-called PERDAR/BCBS 239 Principles: Principles for effective risk data aggregation and risk reporting/Basel Committee on Banking Supervision - which all banks must adopt in structuring their internal information flows. Also the ECB in the context of the SREP 2023 has recommended full alignment to the aforementioned principles by the first quarter of 2026, also requiring the performance of a dedicated self-assessment with the subsequent definition and implementation of an action plan, of which updates are expected to be received on a quarterly basis until full alignment is reached.

The strengthening of **ICT and security risk** management and of the overall corporate resilience is, by now, an absolutely necessary and dutiful step, which is increasingly recurring in the

expectations of the Supervisory Authority also in view of the specific regulatory provisions that have been issued on the subject.

In this regard, in addition to the aforementioned 40th update of Circular 285 - the adjustment of which included, during the course of the year, the updating of corporate policies and directives and the assignment of ICT and security risk control tasks to the pre-existing Corporate Risk Control and Compliance Functions, in relation to their responsibilities and competences – it will be necessary to make, during the course of 2024, the adjustments required by the European Regulation on the *Digital Operational Resilience Act* (DORA) as applied to the financial sector. This Act will enter into effect on 16 January 2025 and will be applicable as from 17 January 2025 and aims to consolidate and update the requirements on cyber risks, defining common rules and approaches for financial entities, while increasing the relative level of harmonisation.

The need to ensure a constant monitoring of the evolution of information systems, both in terms of security against continuous external threats and in terms of alignment with the relevant regulatory requirements, has guided the preparation of the new "Information Technology (IT) and Information Security (IS) Strategic Plan 2024-2026" through which the Group aims to strengthen its security position and at the same time ensure consistency with the strategic guidelines.

In line with previous years, the attention devoted by the Board of Statutory Auditors to credit risk was also significant in 2023. Credit risk continued to be the subject of adequate and targeted monitoring and control activities, as better specified in the section on "Focus on Credit Risk".

➤ Focus on the Corporate Control Functions (CCF)

Further details relating to the main drivers on which the CCFs have targeted the activities within their scope of competence and the relative outcomes are provided below.

– *Compliance Function*

It is carried out by the Chief Compliance Executive (CCE) Department, with responsibility assigned to the Manager of the same Department.

It oversees, using a risk based approach, the management of non-compliance risk with regard to all corporate activities, checking that the internal procedures are adequate for preventing such risk.

On the basis of the activities performed during the year, of the controls, the dialogue with the Supervisory Authorities and the comparisons carried out also with the other Corporate Control Functions, the overall assessment of the Internal Control System, as a judgement of compliance, stands at a “mostly adequate” level.

The Global Compliance Index continues its trend of steady improvement, settling at a level of prevailing compliance, in line with the RAS target level.

As at 31 December 2023, there were no regulatory areas with a "significant" residual risk: in fact, the assessment of the two regulatory areas concerning "Transparency of Services and Financing Products" and "Transparency of Services and Banking Products" improved, with the residual risk going from "significant" to "moderate", as a result of the remedial actions carried out and the adequacy of controls on emerging aspects; therefore, there were 20 regulatory areas with a "moderate" residual risk and 6 with a "minimum" residual risk.

During 2023, the Function carried out the planned compliance checks for all Group Companies, providing opinions and validating the internal regulations of competence. It also continued the project initiatives aimed at implementing further continuous monitoring tools and developing *Robotic Process Automation solutions for repetitive activities; the objective pursued was to achieve an overall improvement in the effectiveness of the activities for achieving compliance, in addition to the automation already in place in some areas (MiFID), with the evolution of digitisation solutions.*

Particular attention was paid by the Compliance Function regarding the regulatory changes introduced by the aforementioned 40th update of Circular no. 285/13 of the Bank of Italy, falling within an overall adjustment plan that aims to strengthen the governance of ICT and security risks, in line with the provisions of the aforementioned DORA European Regulation.

In order to ensure the Bank's compliance with the new provisions, a cross-functional project was launched that led to the revision of approximately 40 internal regulatory documents; fine-tuning activities will continue in 2024, with the publication of the remaining documents. An activity was also conducted to analyse and strengthen the compliance control catalogue, with the introduction of 133 new controls, which are currently being recorded in the single GRC application.

Moreover, during the year, Consob formalised the results of the assessments carried out on investment services from 3 May 2022 to 17 February 2023, highlighting, in the context of a judgement of "substantial compliance with the regulatory framework and oversight by the control functions", some points for improvement on three thematic areas (Product Governance, Service Model and Procedures for assessing the adequacy of transactions) in relation to which a specific Remedial Plan was defined. The initiatives covered in the same Plan, under the monitoring of the Compliance Function, continue according to schedule, and the progress of the remaining activities is on schedule for the next releases.

With regard to active compliance gaps during the year, 23 gaps attributed to other corporate functions were opened by the Compliance Function for all Group companies and 33 gaps were closed; at the end of December 2023, there were 9 active gaps open.

With reference to the two macro-families of complaints, the Compliance Function shows a strong reduction for those relating to investment services (Consob) and an increase in those relating to banking services (ABI); ABF appeals also fell sharply.

As regards the "Privacy" area, to be noted are the advisory and control activities carried out by the Data Protection Officer (DPO), whose role is assigned to the pro tempore Manager of the DPO and the Privacy Advisory Staff, specifically consulted by this Board of Statutory Auditors at the meeting of 28 February.

The informational items on the matter, aside from being reported with the highest level of detail in the annual Report of the DPO, are also included, in summary form, in the Annual Compliance Report in the relevant section ("Protection of Personal Data - Privacy"): the related compliance assessment was overall at a "mostly compliant" level with a moderate residual risk.

– Risk Control Function

It is carried out by the Chief Risk Officer Department, with responsibility assigned to the manager of the same Department.

During 2023, as also reported in the Risk Management Report, the Function has maintained as its main priorities the management of the Risk Profile and the continuous evaluation of the capital and liquidity adequacy (ongoing ICAAP and ILAAP).

With regard to the risk profile, the same Function has expressed its own specific assessments from the perspective of (i) inherent risk, i.e. the overall level of risks faced by the Group and (ii) the adequacy of the organisational processes, systems, controls and monitoring in place to manage and mitigate these risks.

Overall, the assessment of the Risk Management Function with reference to the current inherent risks of the Group is fully adequate (score of 1 out of 4). The positive evaluation can be attributed to the capital strengthening implemented, the improvement in profitability (mainly related to the increase in interest rates), the structurally reduced cost base, and the improved external ratings, all of which point to a definitely positive result. Even considering some qualitative elements of prudence in a forward-looking perspective, linked to the evolution of the external scenario and to potential execution risks of the Plan, the final assessment remains of adequacy.

With reference to internal controls, organisational processes and risk management systems, the final summary assessment is mainly adequate (score of 2 out of 4), especially from a forward-looking perspective, considering the overall activities in progress for the consolidation of the credit risk management processes (NPE management) and strategic planning and for the finalisation of the PERDAR (Principles for Effective Risk Data Aggregation and Risk Reporting) project, enabling the strengthening and implementation of the overall Data Governance framework.

In this regard, in order to consolidate the aforementioned assessment, the Risk Function deems it sufficient to fully implement the activities already included in the Budget/Plan, to contain the increasing of the non-performing portfolio and to continue to further reduce dependence on ECB funding through market transactions. On the other hand, with regard to processes, in addition to monitoring credit risks, to be noted is the need to evolve and fully integrate emerging risks (in particular IT/Cyber, climate-environmental risks, third parties) into the management process.

–Anti-money Laundering Function

It is carried out by the AML-CFT first-level structure within the CRO Department; the responsibility is assigned to the Manager of the above-mentioned Department.

According to a risk-based approach, it oversees the risks related to combating money laundering and the financing of terrorism and continually verifies that business processes and procedures are consistent with the objective of preventing and combating the violation of regulations on such matters.

During 2023, remote audits were carried out with the frequency and methods established in the "control catalogue" with reference to the areas of: Suspicious transaction assessment, Fight against terrorism financing, Data storage and Customer due diligence.

Overall, as shown in the "AML 2023 Report", made available to this Board and submitted to the Board of Directors on 29 February, the Anti-Money Laundering and Combating Terrorist Financing area confirm a level of considerable sustainability. The activities of the Anti-Money Laundering Function will continue in order to ensure the completion of the project activities

launched in 2023, with particular reference to the New York Project, including activities related to the anti-money laundering audit carried out by the Bank of Italy at Banca Widiba in 2022, as well as the visit branch in BMPS of 2021, guaranteeing, in compliance with the constraints of budget and available resources, the management of ordinary activities and the mandatory adjustments required by the various regulations issued and evaluating, from time to time, the harmonisation of processes and extension of the Parent Company standards to the subsidiaries in scope.

Lastly, the 2023 self-assessment process of the Parent Company confirmed a “Low” residual risk level, resulting from the combination of the inherent risk judgements (Medium-Low) and the vulnerability of the controls (Not significant) for each of the business lines of the Company. The Group’s residual risk level was also confirmed as “Low”, in line with the result obtained the previous year.

The presence of a substantially positive scenario was also confirmed by the Audit Function which, in 2023, dedicated to AML 3 audits (of which 2 conducted to assist the Board of Statutory Auditors), aimed at ascertaining, among other things, the centralisation of the Anti-Money Laundering Function.

As part of the regulatory developments on the matter, it should be noted that, following the issue of the Bank of Italy Measure of 1 August 2023, aimed at implementing the EBA guidelines on AML, the regulatory body was appropriately updated in AML (Directive and Policy) and the Group Anti-Money Laundering Manager was appointed, as a new position introduced by the same Measure.

In particular, with regard to this last requirement, given the centralisation/externalisation at the Parent Company of the AML Function of the Italian subsidiaries (Widiba and MPS Fiduciaria), the approach adopted, in continuity with the current set-up, was to designate the Head of the Bank's Chief Risk Officer Department - already Head of the AML Function of the Parent Company and of the two subsidiaries - as Group AML Manager.

– Internal Validation Function

It is carried out by the “Risk system validation” first-level structure within the CRO Department; the responsibility is assigned to the Manager of the above-mentioned structure.

The Internal Validation Function is required to constantly verify the consistency of the risk measurement systems with company regulations and the regulations of the Supervisory Authorities. It is responsible for validating the advanced internal models and the gradual extension to those of Pillar I not used for regulatory purposes and to those of Pillar II, according to a materiality criterion. Furthermore the function has the task to prepare the mandatory information set in relation to the models validated.

The Validation Report referring to 2023, presented by the Head of the same Function during the meeting of this Board of Directors on 28 February, includes the assessments formulated by the Validation Function regarding the Credit Risk Measurement Systems - Internal Rating System (AIRB-SRI), Operational Risks (AMA), Interest Rate Risk of the Banking Book and IFRS 9 *impairment* models, following the completion of the executable activities provided for in the 2022 Validation Plan and the additional activities made necessary in the course of year.

The outcome of the Validation analyses confirmed, in particular for regulatory risks (AIRB-SRI and AMA), the positive assessment of this with regard to the minimum requirements established for the use of internal systems for determining the capital requirement; all areas of improvement identified have been addressed and resolution activities are underway.

More specifically, the Validation Function expressed (i) a "Mainly favourable" opinion in relation to the Credit Risk Measurement System - AIRB-SRI Internal Ratings System showed an improvement over the 2022 Validation and (ii) a "Mainly Favourable" opinion on the Operational Risk Measurement System (AMA). The latter is in line with what was assessed in the 2022 Validation. Similar conclusions emerged from the audits conducted during the year, which confirmed compliance with the requirements and eligibility conditions for the use for regulatory purposes of advanced methods for the management and measurement of Credit and operational risks.

The Validation Function then gave a rating of "Mainly Favourable" opinions to the Interest Rate Risk in the Banking Book (IRRBB) and the Liquidity Risk Management and Measurement Systems, and to the IFRS9 impairment accounting Models in the area of Credit.

With reference to the rating assigned to the Model Risk, to be noted is that the AIRB and AMA models are unchanged compared to the previous year. The following are the assigned rating: HIGH for the AIRB models, MEDIUM for the AMA model and MEDIUM for the IRRBB models.

– Audit Function

It is carried out by the Chief Audit Executive Department, with responsibility assigned to the Manager of the same Department.

The CAE Department performs an independent and objective activity aimed at controlling, on the one hand, based on third-level controls, the regular performance of operations and the evolution of risks and, on the other hand, at evaluating the completeness, adequacy, functionality and reliability of the organisational structure and the other components of the Internal Control System, bringing any possible improvements to the attention of the company bodies, with particular reference to the RAF, the risk management process, as well as the instruments for measuring and controlling these risks.

The Board of Statutory Auditors also received from the same Function the necessary assistance for the execution of the supervisory activities in its competence and acquired the information relative to the Audit Plan, the activities carried out, the reports issued, the outcomes of the verifications carried out during the year, selected on the basis of shared relevance criteria and the progress of the corrective actions identified; with regard to the relevant aspects identified, this Body has acted to ensure that the necessary and more timely remedial actions were taken by the competent Bank's Functions.

The year 2023 was the third and last year of the 2021-2023 three-year audit cycle, a period in which the CAE Department set itself the goal of ensuring an adequate degree of coverage of the audit universe (represented by the scope of the companies and the taxonomy of business processes). In particular, the activities planned for 2023 made it possible to guarantee, over the three-year period, the full coverage of the processes with high and medium-high residual risk identified in 2021 and subsequently, periodically updated.

Overall, the CAE Department has conducted during the year, 68 process interventions, including 21 compulsory revisions in compliance with regulatory requirements, in addition to 257 interventions on BMPS peripheral Network branches and Local Areas structures as well as on Banca Widiba's financial advisors. Of these, as already highlighted in the dedicated section (paragraph 1.1), the Board of Statutory Auditors assisted with 20, of which 19 involved the Head Office Structures and 1 the peripheral ones.

The audits carried out are in line with the Audit Plan approved by the Bank's Board of Directors on 23 February 2023, i.e. 325 carried out vs. 320 planned (+2% vs. planned).

On the basis of the information acquired and included in the Annual Report of the Audit Function for 2023 presented to this Board of Statutory Auditors by the CAE Manager during the meeting held on 28 February and subsequently submitted to the Board of Directors (29 February 2024), in terms of completeness, adequacy, functionality and reliability, the rating given to the Group's Internal Control System, "R2-yellow", was substantially positive (according to the usual scale of judgements adopted by the CAE Department itself for the assessment of its audit activities, distributed over four levels with increasing relevance: R1-green, R2-yellow, R3-orange and R4-red).

This assessment is maintained from a prudential perspective in continuity with the judgments made in previous years, recognising that in 2023 important structural improvements were achieved with regard to the Bank's long-term sustainability and progress was made on the adequacy of the internal control system, in particular with reference to the strengthened coordination between control functions, the increased monitoring of gaps, as well as an increase in commitment on the part of all top management with regard to risk culture and the dissemination of a preventive approach.

This result represents the summary of the qualitative-quantitative evidence resulting from the auditing and asseveration activities carried out during the year (on the processes of the General Management), which recorded predominantly positive ratings at the central level - in 96% of cases (47% "R1-Green" and 49% "R2-Yellow"), to which the audits completed without a grade (1%) and those with a rating of "R3-Orange" (3%) must be added. During 2023, no cases with a negative rating ("R4-Red") were identified.

The "R3-Orange" assessments were assigned alongside the audits conducted on "Delivery of ICT services post-integration" and "Data Governance", both conducted in support of the Board of Statutory Auditors and already detailed in the relevant section (paragraph 1.1) to which reference is made.

On an overall level, on the basis of the audit activities carried out, no risk elements to be considered serious have emerged even though there are areas requiring attention, mainly attributable to "ICT and Security", "Data Governance" and "Operational" Risks. In any case, there is still a strong focus on areas related to Credit Risks. With reference to the latter, the Board of Statutory Auditors has adopted and reports, albeit in a context of improvement compared to the previous year, the main anomalies detected on the branch network that concerned behavioural aspects, with the consequent need for a specific training programme for the resources concerned.

The Audit Function also has Group level responsibility for internal whistleblowing systems for reporting violations. This activity is managed through the "WB Confidential" information system that supports the entire process and ensures, at every stage, the confidentiality of the report and privacy of the personal data of the reporting party and possibly the party to which the report refers, ensuring a specific and independent channel, separate from ordinary reporting lines.

In this regard, the technological updating activities were completed with the release into production of the new platform to support the Whistleblowing channel, which is an evolution of the previous application in use by the MPS Group, providing for a further strengthening of IT security, a method of easier and more intuitive authentication and navigation together with a renewed and enriched reporting form.

Particular attention was also paid to the innovations introduced by Legislative Decree No. 24 of 30 March 2023, through which the European Directive on the regulation of reporting channels and the protections afforded to whistleblowers, both in the public and private sectors, understood as employees and qualified external parties (e.g. suppliers, self-employed workers, shareholders, etc.), was transposed in Italy. In this context, the necessary adjustments to ensure alignment with the new provisions have been defined. Noteworthy is the activation of the unified communication and collaboration platform to enable the entry of reports in oral form, a mode provided for by the same Decree.

Training initiatives on the subject continued, in compliance with the provisions of Bank of Italy Circular no. 285 where banks are required to explain to their staff in a clear, precise and complete manner the internal reporting system adopted; To this end, various available channels of a training and information nature were used, with the aim of illustrating the system adopted, encouraging its concrete use by personnel and further disseminating the culture of control and risk prevention at all levels.

During 2023, 26 reports and in-depth analysis activities were completed on 15 reports (of which 3 in stock at 1 January 2022) and in-depth activities are underway for the 14 remaining reports, mainly relating to commercial network processes in specific operating units.

These activities performed by the Fraud Audit Function were brought to the awareness of the Board of Statutory Auditors on a regular basis.

Overall, as confirmed by the Head of the Internal Whistleblowing Systems for reporting violations, which is part of the 2023 Report, the whistleblowing systems adopted is properly functioning, according to the external and internal regulations currently in force. The electronic platform adopted did not show critical issues and its technological upgrade has strengthened IT security and facilitated its usability by the user.

In addition to the management of reports of this kind, the Fraud Audit Function paid particular attention to "Prevention" activities - aimed at identifying, on the basis of the frauds suffered and the evidence that emerges from the continuous monitoring of risky events, the weak points of the processes in the area of fraud risk and defining the consequent improvement actions - as well as those related to "Detection", aimed at defining and keeping up-to-date the fraud risk indicators, with the aim of promptly identifying fraudulent and irregular behaviour, launching Special Investigations if necessary.

The active gaps monitored by the Audit Function are 69, of medium importance (38) and low importance (31), respectively, a significant decrease compared to the figure at the end of 2022 (122); the trend of the gaps subject to replanning was also down (15 compared to 32 in 2022). There were also no gaps that expired during the year (11 in 2022).

* * *

At an overall level, considering the results of the audits conducted by the Control Functions, by the Financial Reporting Officer as well as by the Supervisory Authorities, the active gaps under monitoring as at 31 December 2023 are 158, of which 68 attributable to ECB audits, most of which (62%) related to investigations on internal risk measurement models (hereinafter Internal Model Investigation, IMI) whose resolution is expected as part of the new model change (Model Change 2024) by the end of August 2024.

At present, there are no overdue findings against the ECB and the remedial plans are on track.

In this regard, the owner Functions are increasingly monitoring their compliance with the agreed deadlines for the conclusion of the planned mitigation actions. This also following the constant attention paid to these matters, not only by this Control Body, but also by the Director in charge of the Internal Control System, in order to raise awareness and strengthen the responsibilities of all Functions involved in the gap identification process: from the identification, to the taking charge, to the monitoring, up to the total closure of the critical issues identified.

In this context, the recent revision (July 2023) of the internal regulatory document on “Gap Management” (Doc. No. 1959) is included, which contemplates certain changes aimed at strengthening the monitoring of the implementation of the mitigation actions provided for the resolution of gaps within the agreed timeframe. In particular, in addition to what was already established regarding the follow-up by the Owner Functions and Control Functions, a centralised monthly monitoring was set up, with the transmission of the list of active gaps that highlighted those expired and due to expire in the next three months, to all the functions involved; this was done in order to further increase the monitoring of any criticalities and their consequent management.

Furthermore, in order to promote a risk culture and direct behaviour in line with the importance accorded to the control environment, "compliance factors" have been included in the definition of the parameters determining the amount of the 2023 bonus pool that will be allocated to each of the Bank's structures. These include the outcome of the inspections carried out on the network structures and the timing of the resolution of medium and high importance gaps opened by the Corporate Control Functions and addressed to the General Management structures.

The resolution of the critical areas (gaps) identified during audits and, moreover, those identified by the Supervisory Authorities, was subject to constant monitoring by the Board of Statutory Auditors, which within the scope of its supervisory activities focused in particular on trends in the performance of the corrective actions carried out by the owner Functions and respect for agreed timing.

This Control Body has, in fact, regularly monitored the development of open gaps, acquiring the relevant updates from the special reports drawn up for the purpose (Quarterly Report and Gap Execution Plan), emphasising the need to give top priority to the effective implementation of activities to resolve the gaps identified by the Control Functions as well as the findings reported by the Supervisory Authorities resulting from the inspections conducted by them, in compliance with the time frames and procedures defined for the purpose. This is since the improvement of processes and the ensuing value added for the overall company Organisation presupposes not only the identification of anomalies by the Control Functions but also the necessary remediation and resolution of the reasons for such anomalies, in order to achieve effective risk mitigation.

* * *

On the basis of these assumptions and with particular reference to the specific operating contexts analysed and the consequent corrective actions defined on the sidelines of the overall control activities, including those of the Financial Reporting Officer, it is believed that the Internal Control System is mostly adequate, confirming the same judgements expressed in previous years. We acknowledge the improvements achieved by the Bank with regard to its long-term sustainability and the progress on the adequacy of the internal control system, in particular with reference to the strengthened coordination between Corporate Control Functions, the increased oversight on gap monitoring, as well as an increased commitment by the entire Top Management with regard to risk culture and the dissemination of a preventive approach.

This was also confirmed by the Director in charge of the Control System, most recently consulted during the meeting held jointly with the Risk and Sustainability Committee on 28 February 2024.

Still standing is the need to continue to constantly improve the effectiveness of control activities and to implement additional IT solutions and tools for each Corporate Control Function, aimed at strengthening the overall Internal Control System and increasing the level of automation in general, while optimising the use of resources and the monitoring of risks with a view to reviewing processes from a digital perspective.

Also relevant are the overall development and innovation initiatives included in the “2024-2026 Information Technology (IT) and Information Security (IS) Strategic Plan”, aimed at monitoring the evolution of the information systems to support the achievement of the objectives defined in the 2022-2026 Business Plan and at the same time to update the path already defined in the security area (Three-Year Logical Security Plan 2022-2024) in order to take into account the technological evolution and cybersecurity trends already developed or being adopted in the market, in line with the strategic guidelines defined by the Bank.

As already highlighted in this Report, particular attention will be paid to initiatives directed at the implementation and maintenance of the Data Governance and Data Quality management system, as a tool of primary importance for the achievement of strategic objectives, or for the monitoring of the overall company information assets.

Finally, as part of an integrated risk management approach, increasing levels of coordination and interaction among all the Functions involved in the overall Internal Control System will be pursued, including that of the Financial Reporting Officer, proceeding with due proactivity and incisiveness in identifying and overseeing the remedial activities defined in response to the areas of improvement identified, while at the same time maintaining constant attention to the recommendations issued by the Supervisory Authorities and according to the legislation and its evolution, so that the Bank can prepare the necessary consequent changes in time (e.g. ESG digital sustainability aspects, AGiD digital accessibility and DORA regulation).

3.2 Supervisory activities on the adequacy of the organisational structure

The MPS Group is a financial, credit, insurance, integrated and multi-market entity, characterised by an organisational model based on a central management and management coordination structure represented by the Banking Parent Company, which also carries out operating activities

on behalf of the network sales and distribution structure, composed of the business units of Banca Monte dei Paschi di Siena and Banca Widiba, with the network of Financial Advisors.

Banca MPS, in its capacity as Parent Company of the MPS Group, performs the functions of policy-making, governance and unitary control over the Subsidiaries, through management and coordination activities, within the general guidelines defined by the Board of Directors and in the interest of the Group's stability.

In 2023, the Group's organisational structure was affected by the completion of the aforementioned corporate incorporation into the Parent Company of the subsidiaries MPS Leasing & Factoring and MPS Capital Services, as well as some minor organisational interventions, such as: (i) transferring the responsibilities relating to Artistic Heritage from the Communication Staff to other specific staff, reporting directly to the Chief Operating Officer; (ii) repositioning of the Data Governance function reporting directly to the Chief Financial Officer.

Concurrently with the approval of the consolidated results as at 31 December 2023, the Bank continued on its path to promote the dissemination of a strong corporate culture focused on the creation of long-term value, with the enhancement of internal resources through the appointment of the Acting Deputy Sales General Manager, to whom the CCO Private Companies and the CCO Retail report, and of the following Functions: Chief Human Capital Officer, Chief Operating Officer, Information Technology, Operation and Chief Safety Officer.

With reference to the Network processes, in continuity with the previous year, the interventions aimed at improving the quality of work, freeing up commercial time and increasing the quality of the service offered to the Customer continued, reducing response times/service delivery through the rationalisation of "administrative" activities and document management costs, with a strong focus on increasing process digitalisation.

The new structure aims to promote better coordination of the Group's activities with respect to the direction outlined in the 2022-2026 Business Plan, at the same time facilitating the governance of the most complex areas, in line with the evolution of the Group and the external context.

The Board of Statutory Auditors has acquired knowledge of and supervised the organisational structure, particularly with regard to compliance with regulatory provisions and the related changes and consolidation of the internal regulatory framework.

During the year, the Board of Statutory Auditors also held meetings with the Human Resources Function and the Organisation Function, with the aim of assessing the organisational structure in terms of quality and adequacy, also with regard to the requirements related to the completion of the aforementioned mergers and the voluntary early retirement plan/Solidarity Fund, completed in December 2022 and finalised in the first half of 2023, as well as the development of the projects of the 2022-2026 Business Plan, paying particular attention to the qualitative and quantitative composition of the Corporate Control Functions.

In exercising its duties to supervise the adequacy of the ICS, this Control Body has recommended that the Corporate Control Functions carefully monitor any staff shortfalls, receiving timely information on the solutions identified to deal with such eventualities, and taking into account also the opportunity to make the most of internal professional expertise.

In this regard, both on the basis of direct discussions with the Heads of the designated Corporate Control Functions, during the meetings held in the 2023 financial year, and in relation to the evidence that has emerged as a result of the controls conducted by said Control Functions, the

Board of Statutory Auditors noted that the Corporate Control Functions themselves deem their size and capacity to be adequate.

The Board has also reiterated on several occasions how the qualitative and quantitative adequacy of the corporate structures must be guaranteed and assessed also in light of the investments undertaken in the strengthening and /or implementation of IT support and automation processes, aimed at improving the continuous efficiency and quality of operations.

In light of the activities carried out, the information acquired and the documentation reviewed, this Control Body has acknowledged that the organisational structure of the MPS Group, in its design and implementation to date, guarantees efficient decision-making processes, in line with the Business Plan, despite the awareness that, in a Group as large and structurally significant as Banca MPS, such organisational configuration requires continuous evolutionary interventions.

The Board of Statutory Auditors will continue to monitor the gradual evolution of the entire organisational configuration and the related adequacy and operating effectiveness.

3.3 Supervisory activities on the administrative-accounting system

The Board of Statutory Auditors met regularly with the Financial Reporting Officer, under whom the relevant audit activities are centralised, in particular the Law 262 Legal Checks and Tax Compliance Structure, discussing the main areas for attention. The Officer did not report any significant gaps in the operating and control processes that could jeopardise the assessment of the administrative and accounting procedures as suitable and effectively applied in order to correctly represent the Bank's financial situation as presented in the separate and consolidated financial statements as at 31 December 2023.

The main issues that the Financial Reporting Officer has deemed necessary to analyse during the 2023 financial year, as considered relevant also for the purposes of accounting audit activities, in addition to the more general checks on the reliability of the financial information, were the following: (i) going concern assumption; (ii) legal disputes linked to the dissemination of financial information in the 2008-2015 period; (iii) DTA valuation; (iv) real estate valuation; (v) FTA IFRS 17/IFRS 9 insurance affiliates; (vi) Credit: compensation audits on classification and evaluations. These topics, extensively discussed during several meetings of the Board of Statutory Auditors also with the Financial Reporting Officer, are reported in more detail in the Notes, to which reference is made.

The control methodologies defined by the MPS Group for the purposes of the operations of the Financial Reporting Officer structure and the corrective action plan implemented so far allow the Financial Reporting Officer to formulate a judgement of adequate accounting risk control.

Also from the additional audits conducted (correct classification and assessment of specific credit positions, data quality analyses relating to legal proceedings or lawsuits, assessments of securities in the portfolio sold in 2023), there were no impediments to the certification issued by the Financial Reporting Officer regarding the Financial Statements and Consolidated Financial Statements as at 31 December 2023.

The Statutory Auditors have also constantly monitored the remedial activities, coordinated by the Financial Reporting Officer, carried out by the competent Functions of the Bank having regard to the areas for improvement and the areas for strengthening of the internal control system, also

highlighted by the Independent Auditors PwC, with reference to the activities carried out on the Financial Statements for the year ended 31 December 2022, noting their substantial completion.

For the purposes of its control activities, the Board of Statutory Auditors also constantly monitored the remedial activities relating to the gaps highlighted by the Financial Reporting Officer with reference to the financial year 2022, verifying their almost substantial definition. As part of the activities carried out during the year, some gaps emerged on which the consequent remedial actions are underway and on which the Board of Statutory Auditors will carry out careful monitoring.

Similarly, frequent meetings were held with the same Independent Auditors aimed at exchanging information regarding the suitability of the Company's administrative and accounting system. During this activity, no facts deemed censurable were reported. The Board of Statutory Auditors also had the opportunity to share with the Independent Auditors the procedures adopted in drafting the 2023 separate and consolidated financial statements.

Given the above, the Board highlights that:

- pursuant to the provisions of Italian Legislative Decree no. 38 of 28 February 2005, the Bank's financial statements were drafted by applying the international accounting principles issued by the International Accounting Standards Board (IASB) and related interpretations by the IFRS Interpretations Committee, endorsed by the European Commission as established by EC Regulation no. 1606 of 19 July 2002 effective as at 31 December 2023, as well as in compliance with the "Framework for the preparation and presentation of financial statements" ("Conceptual Framework");
- the provisions contained in Bank of Italy Circular no. 262, as amended by the eighth update of 17 November 2022, were also applied to the financial statements and the respective Notes. The aforementioned update takes into account the new international accounting standard IFRS 17 "Insurance contracts", which replaces the previous IFRS 4 "Insurance contracts" from 1 January 2023, and subsequent amendments to other international accounting standards, including IAS 1 "Presentation of Financial Statements" and IFRS 7 "Financial Instruments: Disclosures". The amendments mainly concern the consolidated financial statements of conglomerate parent banks, mainly in the banking sector, as well as those of banks with equity investments in insurance companies consolidated for accounting purposes and which are not conglomerate parents.

The insurance investees AXA MPS Assicurazioni Danni Spa and AXA MPS Assicurazioni Vita Spa are consolidated in the Group's financial statements using the equity method and are valued at cost in the financial statements; for information purposes, please note that the first-time adoption of IFRS 17 and IFRS 9 had, as at 1 January 2023, a positive impact on the Group's shareholders' equity of EUR 62.4 mln.

The tables that provide the reconciliation of the balance sheet balances as at 1 January 2022 and 31 December 2022, as well as the impact on the opening balances of the year for which the comparative data is restated, are analytically presented in the Notes to the Consolidated Financial Statements.

The Group also took into account the Bank of Italy communication of 14 March 2023 "Update of the provisions of Circular no. 262 – Bank Financial Statements: layout and rules for preparation regarding the impacts of COVID-19 and measures to support the economy", which repeals and replaces the previous communication of 21 December 2021 relating to the COVID-19 disclosure to be provided in the financial statements. The update, due to the changed pandemic-related scenario, eliminates the financial statement disclosure relating to moratorium-

backed loans while requesting, in free format, financial statement disclosure on the loans subject to public guarantee. The provisions of the communication apply to financial statements closed or pending as at 31 December 2023;

- disclosures to the public are made available on the Bank's website within the deadlines set for the publication of annual and interim financial statements, according to the provisions indicated in prudential supervisory regulations (known as Pillar 3);
- all activities performed, the control methods defined and the corrective action plan activated thus far have allowed the Board of Directors and the Financial Reporting Officer to issue the certifications envisaged by art. 81-ter of Consob Regulation no. 11971 of 14 May 1999 and subsequent amendments and by art. 154-bis of the Consolidated Law on Finance with reference to the 2023 separate and consolidated financial statements. The Risk and Sustainability Committee has expressed a favourable opinion on these statements.

It should also be noted that the Directors did not opt to exercise the derogation of powers pursuant to art. 5, para. 1, of Italian Legislative Decree no. 38/05.

With regard to the issue of going concern and the requirements of Document no. 2 of 6 February 2009 and Document no. 4 of 3 March 2010, issued jointly by the Bank of Italy, Consob and ISVAP, with subsequent amendments and Consob Warning Notice no. 1/21 of 16 February 2021, this Board of Statutory Auditors acknowledges that the financial statements were drafted under the "going concern" assumption, based on the reasonable assumption of continuing to operate in the foreseeable future.

Taking note of this assumption, we refer to what is stated by the Board of Directors in Part A of the Explanatory Notes - Accounting policies in the "going concern" section of the financial statements.

The assessment of the Group's ability to continue as a going concern is based essentially on the prospective evolution of the capital and liquidity position over a time span of at least 12 months.

The Bank's Directors deem that, after assessment of the evolution of the equity and liquidity positions and with regard to the indications provided in Document no. 2 of 6 February 2009 and Document no. 4 of 3 March 2010, issued jointly by the Bank of Italy, Consob and ISVAP, as amended, the Group has a reasonable expectation that it will continue to operate as a going concern for the foreseeable future and has therefore prepared its financial statements on such going concern basis.

* * *

In the context of the tasks assigned to it, not being required to carry out analytical checks on the merits of the content of the financial statements, the Board of Statutory Auditors has carried out an overall check on the adequacy of the process for the preparation of the Financial Statements as at 31 December 2023 and on the audits carried out by the Independent Auditors.

Therefore, pursuant to the provisions of Italian Legislative Decree 39/10 as amended and supplemented, the Board of Statutory Auditors has verified the financial information process used by the Bank and in particular by the Financial Reporting Officer, by the Chief Executive Officer and by the Directors and, with reference to the audit carried out by the Independent Auditors, has monitored the audit of the Financial Statements for the year closed on 31 December 2023.

In conclusion, to the extent of its own competence, this Board of Statutory Auditors has ensured that the entire process followed by the Bank, the directors and by the Independent Auditors was carried out in accordance with the laws and regulations, not having identified any inconsistencies between the information received with the information supplied in the Financial Statements.

Having said that, the Auditors have in particular examined the specific issue of the going concern assumption in the widest context in the exercise of their own supervisory and monitoring duties on occasion of the preparation and approval by the Bank of the Financial Statements as at 31 December 2023.

The Control Body was thus able to verify the complex process for the preparation of the Financial Statements as at 31 December 2023 at the end of which the Directors, with regard to the evaluation of the assumption of going concern, came to the conclusions highlighted above. What was represented to this Board of Statutory Auditors on such issue, to the extent of its knowledge and its competence, was found to be consistent with the information on the Financial Report.

In this regard to be noted is that on 26 January 2023, Consob published its 16-31 January Bulletin in which it announced with reference to Banca MPS that, taking into account (i) the capital increase and (ii) the consequent overcoming of the situation pursuant to Article 2446 of the Italian Civil Code, the monthly disclosure requirements set forth in letter a) of the provision of 22 April 2021 had been exceeded as the significant doubts on the company's ability to continue as a going concern that had been declared in the reports prior to the interim report on operations as at 30 September 2022, were overcome.

At the end of our verification activities, taking into account the conclusions of the information reviewed, there is therefore reason to assert that the Bank's administrative accounting system is able to ensure the correct representation of management events.

3.4 Supervisory activities on the statutory accounting audit

The Board of Statutory Auditors supervised, to the extent of its responsibilities, the statutory audit of the separate and consolidated financial statements through the ongoing exchange of information with the Independent Auditors PricewaterhouseCoopers Spa, appointed by the Shareholders' Meeting of 11 April 2019 for the financial years from 31 December 2020 to 31 December 2028.

The Statutory Auditors has held numerous meetings with the same Company, during which they reviewed the audit plans relating to the interim financial statements as at 30 June 2023 and the separate and consolidated financial statements as at 31 December 2023, and has addressed the main risks and points of attention identified by the Independent Auditors.

The same PricewaterhouseCoopers, on 18 March 2024, transmitted the Reports issued pursuant to art. 14 of Italian Legislative Decree no. 39/10 and art. 10 of the Regulation (EU) no. 537/14.

From the review of these documents it was therefore acknowledged that:

- in the opinion of the Independent Auditors, the financial statements provide a true and fair representation of the financial position of the Bank and Group as at 31 December 2023, as well as the economic result and cash flows for the financial year closed on that date, in accordance with International Financial Reporting Standards adopted by the European Union and the

provisions issued in implementation of art. 9 of Italian Legislative Decree no. 38/05 and art. 43 of Italian Legislative Decree no. 136/15;

- the Independent Auditors point out that the Directors are responsible for applying the provisions issued by the European Commission Delegated Regulation (EU) 2019/815 with regard to regulatory technical standards on the specification of a single electronic reporting format (ESEF – European Single Electronic Format), to the Financial Statements and Consolidated Financial Statements as at 31 December 2023, to be included in the Annual Financial Report. The Independent Auditors have carried out the procedures described in the auditing standard (SA Italy) no. 700B in order to express an opinion on the compliance of the Financial Statements and the Consolidated Financial Statements with the provisions of the Delegated Regulation. In the opinion of the Independent Auditors, the Financial Statements and the Consolidated Financial Statements as at 31 December 2023 have been prepared in XHTML format and only the Consolidated Financial Statements have been marked, in all significant aspects, in compliance with the provisions of the Delegated Regulation; the Auditors note that some information contained in the Notes to the Consolidated Financial Statements, when extracted from the XHTML format in an XBRL application, due to certain technical limitations, may not be reproduced in an identical manner with respect to the corresponding information that can be displayed in the Consolidated Financial Statements in XHTML format;
- it was certified that the Report on Operations and certain specific information contained in the Report on Corporate Governance and Ownership Structure are consistent with the separate and consolidated financial statements and have been prepared in accordance with the law.

PricewaterhouseCoopers Spa has highlighted the following key audit matters, which were also discussed by this Board of Statutory Auditors in the aforementioned meetings held with the Independent Auditors:

- Evaluation of loans to customers for loans valued at amortised cost;
- Assessment of legal risks;
- Recoverability of deferred tax assets.

The Independent Auditors also sent the “Supplemental Report” (dated 18 March 2024) to this Control Body, as required by art. 11 of the aforementioned Regulation (EU) no. 537/14. Pursuant to that article and art. 19, paragraph 1, letter a) of Italian Legislative Decree no. 39/10, the Board of Statutory Auditors is required to forward this document, annexed with its own data, to the Directors, together with the results of the audit carried out by PricewaterhouseCoopers Spa.

On the basis of the audit evidence obtained, the Independent Auditors did not identify any significant uncertainty regarding the business continuity of the Bank and the Group; it points out, however, that neither the Directors nor the Independent Auditors can guarantee the future capacity of the Bank and the Group to continue to operate as a going concern.

This Report shows that, as part of the auditing activities carried out, no actual or suspected cases of fraud were identified and no significant issues were identified regarding cases of non-compliance, actual or presumed, with laws and regulations or provisions of the By-Laws.

In addition to this, it is noted that during the course of the audit assignment, more specifically in the process of preparing the financial statements and the consolidated financial statements, a number of areas of the internal control system requiring strengthening and/or areas requiring potential improvement were identified by the Auditor and brought to the attention of Management

and the Heads of Governance activities. In this regard, the Board of Statutory Auditors, in agreement with the Independent Auditors, will constantly monitor them as part of its supervisory activities.

At the date this report was submitted, the Board of Statutory Auditors did not find any critical elements regarding the independence of the Independent Auditors or causes of incompatibility. In this sense, it also received confirmation from the Independent Auditors, expressly contained in the aforementioned reports, both in the supplemental and standard reports, that PricewaterhouseCoopers Spa has not provided services that are prohibited pursuant to art. 5, para. 1 of the aforementioned Regulation.

With reference to the aforementioned Consob Communication no. 1025564 of 6 April 2001 and subsequent amendments, note that in 2023 the Bank granted the Independent Auditors additional assignments for “certification services” in addition to the audit, for fees in the amount of EUR 679 thousand (amount net of VAT, ancillary costs and Consob contribution), as reported in the Notes, to which reference is made for that which is not expressly reported herein. At Group level, this amounted to EUR 780 thousand for “certification services”.

The aforementioned assignments were granted in compliance with the limits established by the “Group Policy on granting and revoking assignments to the Independent Auditors”, which the Bank has internally adopted and in accordance with the provisions of EU Regulation no. 537/14.

As stated in paragraph 1 of this Report, to be also noted is the proposal that this Board of Statutory Auditors submitted to the Board of Directors during the year concerning the request for the integration of the fees for additional and supplementary auditing activities with respect to the independent auditor services, which were included in the initial proposal for the appointment approved by the Bank's Shareholders' Meeting on 11 April 2019. These additional activities entailed a greater commitment for the Independent Auditors, both in qualitative and quantitative terms, and refer to adjustments of a technical/informative nature and additional auditing activities, which became necessary as a result of the changed reference framework both externally (laws and regulations) and internally (organisational structure of the Group).

These activities entail an increase in fees quantified for each year, from 2023 to 2028, at EUR 95,000.00 (application of EU Delegated Regulation 2019/815 - ESEF Regulation and additional activities following the mergers by incorporation of the Consorzio Operativo Gruppo MPS, MPS L&F and MPSCS) in addition, for the year 2023 alone, EUR 30,000.00 for the commitment relating to the audit procedures relating to the IT migration processes of the merged companies MPS Leasing & Factoring and MPS Capital Services.

During the year, the Independent Auditors was not asked to issue mandatory opinions.

PricewaterhouseCoopers Spa has audited the approval by the Directors of the Non-Financial Statement which, pursuant to art. 3, para. 10 of Italian Legislative Decree no. 254/16, is subject to a separate attestation of compliance by the Independent Auditors.

3.5 Supervisory activities on the financial reporting process

The Board of Statutory Auditors performed the functions of the Internal Control and Audit Committee envisaged for entities of public interest by the Consolidated Law on Statutory Auditing,

analysing and monitoring the financial reporting process, examining and following the orderly execution of the work plan prepared by the Independent Auditors (for both financial statements as at 30 June 2023 and 31 December 2023) and verifying its adequacy with respect to the size and organisational and business complexity of the Bank.

This Control Body also interacted with the Financial Reporting Officer from whom it received assurance, including through the specific Certification Report of the Financial Statements, on the consistency between the information reported therein and the results of the accounting applications in use at the Bank. Similar dialogue was conducted for the information contained in press releases and presentations to analysts.

The matter, specifically governed also in the Bank's internal regulations, was audited by this Board in relation to the reliability of financial information communicated by the Company.

As part of its risk disclosure, the Bank identifies as risks of high significance the credit risk, market risk and operational risk (including legal risk), business risk and strategic risk, as well as Funding Risk and Liquidity Risk.

The Board of Statutory Auditors, with its Annual Report on the Financial Statements as at 31 December 2022, had paid particular attention to the risks generated by a significant legal dispute and by out-of-court claims in which the Group was involved, highlighting in particular the risks arising from the financial information disclosed in the period 2008-2015. On the same subject, the Statutory Auditors have dedicated, also in 2023, with the assistance of the same Legal Department as well as the Financial Reporting Officer, several working sessions in order to monitor the dynamics over time, the correct measurement process for financial purposes and adequate monitoring.

At the conclusion of this activity, the Statutory Auditors noted that, in application of the provisions of international accounting standard IAS 37, the Bank had availed itself of the option granted by the same standard not to provide detailed disclosure on the provisions set aside in the financial statements if such information may seriously jeopardise its position in disputes and in potential settlement agreements.

The procedural events related (i) to the finalisation of the judgement relating to criminal proceedings 29634/14 and the consequent termination of the proceedings, (ii) to the issue, as part of criminal proceedings 955/16, of the acquittal judgement of the Court of Criminal Appeal of Milan and (iii) to the issuance in the Alken case of the second instance ruling by the Court of Appeal of Milan, have led, partly already in the interim report as at 30 September, but mainly in the fourth quarter of 2023, also taking into account the progressive increase of further positive rulings in all clusters of civil litigation related to the disclosure of financial information in the period 2008-2015, to significant changes in the assessments of the risk of losing the case.

In detail, starting from 30 September 2023, the risk of losing was reclassified from "possible" to "remote" as regards legal disputes, of the civil plaintiff claims in criminal proceedings 29634/14 and out-of-court claims concerning disputes relating to the period 2008-2011, the latter for a relief sought of EUR 405 mln. During the fourth quarter of 2023, the relief sought of civil action in criminal proceedings 29634/14 was definitively cancelled, the risk related to the civil litigation, as well as criminal proceedings 955/16, was downgraded from "probable" to "possible" and finally, the risk of out-of-court claims, other than those that were already classified as "remote" risk in

September, was classified from “probable/possible” to “remote”, with consequent recognition in the income statement of the related provisions for risks and charges.

As at 31 December 2023, only criminal proceedings 33714/16, as a precautionary measure and pending further developments, are classified as “probable risk”. The provisions for risks and charges relating to this proceeding were determined so as to take into account the amount invested by the counterparty in specific periods of time characterised by the alleged information alterations (net of any disinvestments made during these same periods). The damage subject to compensation was then determined, with the support of qualified experts, 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 access to complete and correct information.

Therefore, there was a significant reduction in the overall relief sought for legal and out-of-court disputes with possible/probable risk compared to the year-end as at 31 December 2022.

Management Overlay and IFRS 9 assessments

With regard to management overlays, such as manual adjustments to include any emerging risk factors not adequately considered by the models, also for 2023 the Bank operated in substantial methodological continuity with respect to what was done in the previous year.

The total amount of management overlays used for accounting valuations at 31 December 2023 decreased by approximately EUR 54.4 mln compared to those recorded at 31 December 2022 (EUR 108.4 mln).

The main events that impact this component are as follows:

- the elimination of the overlay from backtesting analyses on loans and a significant reduction in the overlay on floating-rate mortgages, due to the re-estimation of PD and LGD, which allowed for the factoring of rate dependence into the PD models for retail mortgages, and more conservative estimates of LGD, due to the recent environment and the divestment programme;
- the update of the macroeconomic scenarios and the conservatism of the baseline scenario approved by the Bank with respect to the main institutions, made it possible to factor in the models the tensions on energy prices following the conflicts in Russia and Middle East, making the overlays associated with energy-intensive sectors and the use of asymmetric macroeconomic scenarios no longer necessary;
- the application, to exposures with a turnover of less than EUR 50 mln and classified by the early warning system in the most risky classes, of a correction aimed at capturing the higher riskiness, as shown in the analyses made on the annualised default rates recorded during the first half of 2023;
- the inclusion of climate-environmental factors in credit risk estimates, with integration of the macroeconomic indicators observed in the Net Zero 2050 climate scenario into the baseline scenario adopted by the Bank. This scenario, characterised by a proactive behaviour of the economic system with respect to the energy transition, would entail a global economic contraction with the application of specific corrective measures that would entail higher provisions;

- application of a correction aimed at capturing the greater risk on retail loans with variable rate mortgages that led to higher provisions, as shown by a sensitivity analysis carried out by the Bank on the instalment income ratio, in a stress scenario in which further rate increases lead to a doubling of the instalment and a consequent worsening of the customer's income ratio;
- the factoring in the risk related to the impact on the real estate market of the high interest rates, which characterise the current market environment, which led the Bank to further revise downwards the real estate price index forecast in the "severe but plausible" scenario issued by the external provider. The application of these corrective measures would result in higher provisions.

The Board of Statutory Auditors recommends continuing with the overall process of adjusting and effectively maintaining the management overlays system in order to achieve a more structured and timely process.

Valuation of tax assets – Deferred Tax Assets (DTA)

As at 31 December 2023, the valuation of the DTAs was carried out in continuity with the methodology already applied to the 2022 Financial Statements, thus taking into account the 2022-2026 forecast plan approved by the Board of Directors of the Parent Company on 22 June 2022.

As a matter of prudence, for the purpose of the valuation for the financial statements as at 31 December 2023, the economic results of 2025 and 2026 outlined in the Business Plan approved by the Parent Company were not considered in the explicit period, limiting the positive evolution expected for future years to that resulting from the data forecast for 2024. The economic results for the years subsequent to 2026 were determined by increasing the long-term growth rate (g) of the result forecast for the immediately preceding year on a compound basis.

Taxes on income recorded a positive contribution of EUR 345 mln mainly attributable to the valuation of DTAs net of the tax relative to the economic result for the year 2023. The item of the aforementioned taxes includes non-recurring income for EUR 545.2 mln recorded in the fourth quarter of 2023 and relating to the recovery of the DTA values from tax losses following the repeal of the ACE (subsidy for incentive for the capitalisation of companies), starting from 2024.

Although not summarised here, please refer to the exhaustive information provided in “Part E” of the Notes, where reference is made to the types of risk and the related hedging policies.

In performing the supervisory duties attributed by reference regulations, this Control body verified the consistency of the specific periodic information provided to the Authority and the public with the events and occurrences noted over time, along with overall consistency with the disclosure submitted by the Directors in Board meetings and the profit and loss and financial position statements prepared during that period.

Extraordinary tax on the increase in net interest income (so-called "extra-profits tax")

It should also be noted that art. 26 of Italian Law Decree no. 104 of 10 August 2023 (converted with amendments by Law no. 136 of 9 October 2023) has introduced an extraordinary tax on banks, calculated by applying a rate of 40% on the amount of the interest margin for the financial year 2023 that exceeds the interest margin for the financial year 2021 by at least 10%; the amount of this tax may not exceed a proportion equal to 0.26% of risk-weighted assets as at 31 December

2022. The rule further provides that, in lieu of paying the tax, banks may, upon approval of the 2023 financial statements, allocate an amount not less than 2.5 times the tax due to a non-distributable reserve identified for this purpose.

For the Bank, the tax due amounts to approximately EUR 123,552,481.63 and if not paid, entails the establishment of a non-distributable reserve of no less than EUR 308,881,204.08.

In order to strengthen the Bank's equity position, the Board of Directors has resolved to propose, in line with the guidelines already stated on 7 November 2023, to the Shareholders' Meeting to allocate a portion of the profit for the year 2023 to the establishment of the non-distributable reserve as set forth in art. 26, paragraph 5-bis of Italian Law Decree no. 104 of 10 August 2023.

Property valuation

It should be noted that, as at 31 December 2023, the fair value of the entire real estate assets were updated; this update resulted in an overall net negative outcome for the Group of EUR -31.7 mln (EUR -30.5 mln for the Parent Company) gross of the related tax effects.

Also taking into account the results of the valuation updates carried out as at 30 June 2023, the net negative effect for the year 2023 amounts to a total of EUR 84.1 mln gross of related taxes.

3.6 Supervisory activities on non-financial information (Italian Legislative Decree no. 254/16)

The Board of Statutory Auditors, within the scope of the performance of its duties, having acknowledged Italian Legislative Decree no. 254/2016, implementing Directive 2014/95/EU, concerning the disclosure of information of a non-financial nature, implementing Regulation issued by Consob with resolution no. 20267 of 18 January 2018, has overseen compliance with the provisions contained therein with regard to the preparation of the Consolidated Non-Financial Statement (NFS), prepared in accordance with the provisions of Articles 3 and 4 of Italian Legislative Decree no. 254/2016 and approved by the Board of Directors at its meeting of 29 February 2024.

The NFS of the MPS Group, as required by articles 5, par. 3, letter b) of Italian Legislative Decree 254/2016, constitutes a separate report (Consolidated Non-Financial Statement), with respect to the Annual Financial Report, made available on the Bank's institutional website. It contains, among others, information on environmental and social issues, personnel, respect for human rights, and fight against active and passive corruption, to the extent necessary for understanding the company's performance, the circumstances in which it operates and the impact resulting from its activities, while developing the material issues identified in the non-financial area, through a materiality analysis applied to the issues covered by Italian Legislative Decree no. 254/2016 as well as the reporting framework adopted (GRI - Global Reporting Initiative Standard).

The Board of Statutory Auditors has also acknowledged that starting from 2022 the MPS Group has revised the methodology of the materiality analysis process, according to the principles of impact materiality, in line with the new GRI Standards 2021, which requires assessing the positive and negative, current and potential impacts that the company generates on society, the economy and the surrounding environment through the conduct of its business and its business relations.

* * *

With reference to the Consolidated Non-Financial Statement for a more detailed description of the activities carried out, based on the aforementioned information acquired, this Board of Statutory Auditors certifies that, as required by art. 3, para. 7 of Italian Legislative Decree no. 254/2016 and based on the review of the attestation issued by the Independent Auditors, pursuant to art. 3, para. 10, of Italian Legislative Decree no. 254/2016 and the declaration made by the latter in the context of the Report to the Consolidated Financial Statements pursuant to art. 4 of the Consob Regulations implementing the aforementioned Decree, both issued on 18 March 2024, no elements of non-compliance and/or violation of the relevant regulatory provisions were brought to its attention.

4. Remuneration policies

The Board of Statutory Auditors has acknowledged that the Board of Directors, on the proposal submitted by the Remuneration Committee and upon receiving the opinion of the Risk and Sustainability Committee, at the meeting of 29 February 2023, has approved, to the extent of its area of competence pursuant to the legislation in force at the time, the Report on the Remuneration Policy and Compensation Paid to MPS Group personnel, including the following two sections: “2024 Group Remuneration and Incentive Policy” and “Compensation paid”.

This Report, accompanied by the Explanatory Report, will be submitted for approval to the Shareholders' Meeting called on 11 April 2024.

The Board of Statutory Auditors has supervised the remuneration aspects concerning the MPS Group with the participation of the Chairman of the Board of Statutory Auditors or a Statutory Auditor designated by the Chairman, in all the meetings of the Remuneration Committee, acknowledging all the activities (depending on the case, preliminary investigation), carried out by the afore-mentioned Board Committee, also for the purpose of issuing the opinions required by the relevant regulations.

In particular, the Board of Statutory Auditors reserved specific interest, inter alia, to the evaluation process that led to the decisions (by the Board of Directors) on the remuneration measures, which took place in 2023, in respect of the corporate officers appointed at the Shareholders' Meeting of 20 April 2023, vested with special offices, in particular the remuneration paid to the members of the Board of Directors' internal committees and of the Supervisory Board 231/01. These remunerations were defined in line with the strict remuneration policies set forth in the commitments mandated by the Supervisory Authority.

The 2024 remuneration and incentive policies adopted by the MPS Group, in line with the regulatory provisions and with the provisions set forth in the commitments, and in line with the approach adopted in the previous year, are aimed at creating sustainable value over time and attracting, motivate and retain resources with high professionalism and fairness, adequate to the growing complexity of the businesses, in a logic of full consistency with risk governance policies, guaranteeing salary fairness and absence of pay inequality.

Remuneration and incentive policies also represent an important managerial and strategic lever to guide management and staff towards inclusive and widespread leadership by appropriately balancing and measuring the variable component of remuneration with respect to the fixed component and ensuring that the variable part of remuneration is connected, among other things, to performance parameters, both financial and non-financial, the latter also tied to ESG objectives

such as to allow a constant link between sustainability over time, risk-adjusted performance, compliance and remuneration.

In light of the Supervisory Provisions that unequivocally indicate the need to apply the rules on variable remuneration to all its forms (including those that do not have an incentive nature such as non-competition agreements, notice extension agreements and stability agreements), the Board of Statutory Auditors acknowledges that the 2024 remuneration policies provide that the combination of fixed and variable components (pay-mix) is established in advance for each sub-category of personnel, so as not to induce risky and short-term biased behaviour. In addition, variable remuneration instruments are benchmarked against specific indicators drawn from the Risk Appetite Statement, in particular risk-adjusted performance, liquidity and capital, also defined, valued and formalised on the basis of the binding instructions of the Risk Management Function, appropriately differentiated in accordance with the type of instrument.

In order to supplement the remuneration offer that until 2022 was based only on fixed remuneration, the 2024 remuneration and incentive policies have introduced a company bonus defined through a special trade union agreement that also provides for its disbursement in "welfare" - and an incentive system, both of which are subject to the achievement of Group objectives. These systems represent a strategic lever for the enhancement of human capital, contributing to guarantee sustainable development in the ESG area through the adoption of incentive parameters related to the achievement of the Group's strategic guidelines on these issues, ensuring the alignment between management and the interests of the shareholder and investors, and facilitating the achievement of the challenging objectives defined for 2023, creating value and the prerequisites for the full execution of the Business Plan in the three-year period 2024-2026.

In line with what was proposed in the previous financial year and in compliance with the applicable regulations and supervisory guidelines on the subject, the proposals on the 2024 Incentive System and on the Plan to use "Phantom Shares" will be submitted to the Shareholders' Meeting of 11 April 2024 to meet possible future commitments related to the payment of given amounts as an incentive for the achievement of previously set objectives and for the early termination of employment or early termination of office (severance pay) intended for the "Identified Staff" of the Group Companies.

In this regard, it should be noted that the proposals drawn up by the Remuneration Committee were approved by the Board of Directors on 29 February 2024, with the positive opinion of the Risk and Sustainability Committee and, having regard to the positions of the Chief Executive Officer and General Manager, pursuant to the provisions set forth in articles 2389 of the Italian Civil Code and 26 of the By-Laws, of the Board of Statutory Auditors.

The Remuneration Committee also submitted to the same Board meeting the evaluation of the managerial performance and the 2023 bonus of the Control Functions, the Chief Executive Officer and the General Manager. For the latter, with reference to the 2023 bonus, this Board of Statutory Auditors has issued a specific opinion, pursuant to the aforementioned articles.

With regard to the trend in remuneration levels during 2023, in consideration of the fact that interventions were carried out for approximately 2.1% of employees, it should be noted that this is mainly affected by the renewal of the National Collective Labour Agreement, by selective remuneration measures on some key figures and the reorganisation of the Group's workforce.

To this end, it should be noted that the definition of the remuneration structures is also carried out in correlation with the applicable market practices using, among other things, both the weighing

of company positions - which allows for a continuous and more precise assessment of internal fairness, by checking the consistency of the remuneration packages of resources at the same classification level - and the external competitiveness through comparison with the market. This objective approach to the weighting of positions also ensures that the remuneration policy is gender neutral and makes it possible to pursue equal pay, as evidenced by the narrowing of the gender pay gap in the Group recorded in recent years (see chart), equal to -11.7% as at 31 December 2023 (average total monetary remuneration of women compared to men). As evidence of the Bank's policies to enhance the diversity and inclusion of human capital, with particular attention to the gradual and substantial reduction of the gender pay gap, it should be noted that in 2023 50.4% of the interventions on salary reviews involved female personnel.

With the aim of attracting and retaining the company's professionals and enhancing the value of their specialist or managerial contributions, the Bank also carries out regular benchmarking activities to assess the remuneration positioning of the Group's personnel with respect to the reference market. This activity, also undertaken with the support of specialised companies, is carried out using panels of companies operating in the reference sector, as well as the sectoral surveys of the trade association, and by adopting analysis criteria that allow a comparison to be made with similar roles and positions, noting their relative salary positioning.

This Control Body has also taken note (ex ante) of the opinion issued by the Compliance Function on the assessment of the conformity of the remuneration and incentive policies with the regulatory framework and the Supervisory Provisions. With a view to complementing the audit of the document governing the 2024 Remuneration Policy, the Compliance Function has also carried out additional activities and controls in 2023 to ascertain the actual compliance of the incentive system with the regulations. All the activities carried out lead to an assessment compliant with both the aspects of competence relating to the implementation of the 2023 Policies, and with regard to the proposed 2024 Remuneration Policies.

The Board of Statutory Auditors has also reviewed the report of the Audit Function that accounts for the findings of the audits it conducted during 2023 on the implementation of the Group's remuneration and incentive system, as a result of which the following was ascertained: (i) the remuneration practices are compliant with the policies approved by the Shareholders' Meeting on 20 April 2023, as well as with the relevant external regulations; (ii) the process adopted for the definition of the 2024 Remuneration and Incentive Policies is adequate.

The Risk Control function, as a result of the competence analyses, summarised in the "Report on the consistency between remuneration policies and the Risk Appetite Framework - year 2024", also presented to the Board of Statutory Auditors, has deemed that the planned remuneration and incentive policies and the consequent forms of variable remuneration reported in the 2024 Remuneration Report are consistent with the Risk Appetite Framework system of the Montepaschi Group and with the numerical thresholds expressed in the Group's Risk Appetite Statement for 2024 approved by the Board of Directors.

For the purposes of the Remuneration Report, although it did not introduce a specific constraint also on compliance with the MREL, the Risk Management Function has verified compliance with all regulatory constraints on the payment of any form of variable remuneration.

5. Other information

5.1 Relations with subsidiaries

Banca MPS also operates through its Subsidiaries, which are subject to the direction, coordination and control of the Parent Company BMPS and are required to comply with the instructions issued by the latter for the execution of the instructions given by the Bank of Italy in the interest of the Group's stability.

The supervisory activity of this Control Body extended, also at consolidated level, to said Subsidiaries with regard to the assessment of the adequacy of the intra-group information flows in relation to the Group's legal obligations and operational needs.

In this perspective, the Board of Statutory Auditors has verified the adequacy of the instructions provided by the Bank to the Subsidiaries (art. 114, para. 2, of the Consolidated Law on Finance), so that the Subsidiaries can provide the information necessary to fulfil the communication obligations established by law.

In addition, this Board was in constant contact with the corresponding control bodies of said companies on the most important issues that affected the financial year, in order to obtain greater knowledge regarding the corporate activities and, in particular, of the procedures for overall risk management.

In this respect, also as provided for by art. 151, paragraph 2 of the Consolidated Law on Finance and by the Supervisory Provisions of the Bank of Italy, specific meetings were held, during year and in the first few months of 2024, with the Boards of Statutory Auditors of the main Subsidiaries attended, as considered to be necessary, by the Managers of the Parent Company's Audit and Compliance Functions, also by virtue of the centralisation of the same Functions of the Subsidiary Companies.

During these meetings the attention was focused, in particular, on the general development of corporate activities, on any observations on the financial statements, on the outcomes of the meetings with the appointed Independent Auditors, on the operation of the internal control system, on the risk management procedure and on governance, on any irregularities identified in the performance of the activities by the Independent Auditors and on the inter-group information flows. In this regard, it should be noted that there are still areas for improvement in terms of the organisation and priority of intra-group flows.

Particular attention was paid by this Board of Statutory Auditors to the efficient and timely performance of the activities and initiatives put in place for the finalisation of the merger by incorporation processes into the Parent Company of the Subsidiaries MPS Leasing & Factoring and MPS Capital Services, which were finalised, as mentioned, respectively on 24 April and 29 May 2023, with backdating, for both, of the accounting and tax effects from 1 January 2023.

With regard to MPS Capital Services Banca per le imprese Spa, before the afore-mentioned merger, the functional and informative connection between the two control bodies was also ensured by the fact that the Chairperson of the Board of Statutory Auditors of the Parent Company has held the same position at the Subsidiary.

A similar connection is ensured by the overlapping of roles in the insurance associates AXA MPS Assicurazioni Danni Spa and AXA MPS Assicurazioni Vita Spa and, as regards MPS Fiduciaria

through the Standing Auditor Ms Linguanti, confirmed during the year in a similar position at the Subsidiary.

5.2 Audits by Supervisory Authorities

As part of the prudential supervision programme adopted by the ECB, to which the Parent Company is subject, reference is made below to the inspection activities carried out by the Supervisory Authority during 2023 and the main communications with the same, referable to inspections carried out in previous years.

In this last area, with reference to OSI-2019-4356 on the liquidity allocation process and internal transfer rate, the implementation of the remedial programme was completed in the first half of the year, in response to the recommendations formulated by the ECB. In particular, the assurance activity carried out by the Audit Function on the only finding still open, relating to the performance measurement system of the Bank's Business Units (finding #1), was successfully concluded.

Regarding the ECB's 2022 credit and counterparty risk inspection (OSI-2022-ITMPS-0198380) - aimed at identifying and quantifying any impairment effects on the portfolios under review, and verifying the IFRS9 provisioning model for the portfolios under assessment and examining the credit classification and provisioning process - a Follow-up Letter was received during the second half of 2023, in which the Supervisory Authority formalised the expectations considered necessary to overcome the areas of improvement found. In this regard, the Bank has defined and transmitted to the same Authority a specific action plan, whose implementation is expected to be completed by the first half of 2024.

During the second half of 2023, the Bank also received an “Operational Act” following the “Targeted Review” investigation promoted by the ECB on the “residential properties” portfolio, with a focus on the granting credit process (Targeted Review Residential Real Estate). The highlighted areas for improvement concern the review of the autonomy of the branches, the strengthening of the stress testing framework and the process of assessing the loan repayment capacity by the customer. Implementation of the relevant remedial actions is expected in the first half of 2024.

With reference to the inspections on the so-called "Internal Models Investigation" [IMI] for measuring credit risk, in the first half of 2023 the Final Decision Letter was received on the IMI-0197502 conducted in 2022, where the ECB, in approving the 2021 model change on the revision of the AIRB models, requested the implementation of a number of remedial actions to adequately address the estimation of credit risk, which is expected to be fully implemented by September 2024. In addition, during the year, the IMI 0227377 inspection was carried out in connection with the extension of the Group's advanced models for regulatory purposes on credit risk (AIRB) to the subsidiary Widiba, in relation to which the Final Decision Letter was recently received, confirming the roll-out authorisation effective from 31 December 2023, and a specific plan of remedial actions to be implemented is currently being defined.

In 2023, the Group continued to implement the plan to integrate climate and environmental risks (C&E) into the risk management framework, in line with recommendation received from the ECB as part of the specific Thematic Review launched at the beginning of 2022.

In particular, on the subject of the adequacy of the information provided on C&E risks, to be noted is the letter received from the ECB (February 2023) on the results of the analysis conducted by the same Supervisory Authority, in which the Bank was requested to further improve its disclosure on climate and environmental risks, identifying appropriate actions and addressing the shortcomings found. On 17 March 2023, the Bank provided evidence of the improvements already implemented and those planned.

In September 2023, the ECB sent the Parent Company a Resolution concerning the process of identifying C&E risks, requesting further strengthening on the materiality assessment, on the monitoring of impacts in the business context and also recommending that an update of the materiality assessment on liquidity risk be carried out to incorporate also some acute physical risk events. In this regard, the Bank has defined specific actions that will be implemented over the years 2024 and 2025 which will be incorporated into the ESG programme.

The Parent Company was also selected to participate in the “Fit-for-55 climate risk scenario analysis” that will be conducted by the EBA, with the support of the ECB and ESRB, in the first half of 2024, with the aim of assessing progress carried out by banks in the management of data relating to C&E risks and in alignment with ECB best practices on the issue.

During the second half of the year, the Bank has launched preparatory activities for the 2024 Stress Test on cyber resiliency, aimed at assessing the digital operating resilience of significant entities in the event of a serious cyber security threat; the outcome of the test will be announced in 2024.

The main communications with the national Supervisory Authorities are described below.

On 28 July 2023, Consob formalised the results of the assessments conducted on investment services from 3 May 2022 to 17 February 2023, aimed at ascertaining the status of compliance with the new legislation resulting from the transposition of Directive 2014/65 /EU (MiFID II), having regard, in particular, to the profiles related to the defined procedural arrangements for product governance and the procedures for assessing the appropriateness of transactions carried out on behalf of customers. Within the scope of a substantial compliance with the regulatory framework and supervision by the control functions, the Supervisory Authority has highlighted a number of aspects worthy of in-depth examination and updating that had emerged during the inspection, in relation to which a plan of action had already been adopted and was still in an advanced stage of implementation.

With reference to the subsidiary Banca Widiba, the results of the AML (Anti-Money Laundering) inspection conducted by the Bank of Italy from 7 November to 21 December 2022 were received, aimed at verifying the controls adopted to mitigate money laundering risks related to the digital onboarding process. The findings of the Supervisory Authority were duly taken into account and the Bank's response letter, attaching the corrective measures envisaged in the 2023 AML-CFT Plan was sent to the Bank of Italy on 4 April 2023.

The Board of Statutory Auditors also carefully followed the set of discussions that the competent Bank Functions had with the Supervisory Authorities with regard to specific issues subject to inspections by the same Authorities.

5.3 Complaints and petitions

In the period between 1 January 2023 and up to the filing date of this Report (18 March 2024), this Board of Statutory Auditors received a complaint pursuant to art. 2408 of the Italian Civil Code by a former Standing Auditor of BMPS and the subsidiary MPS Banca Personale (formerly Banca 121), subsequently incorporated into the Parent Company.

The complainant refers to Consob/MEF sanctioning provision no. 59326 of 30 May 2005 received in the aforementioned position of Standing Auditor, which became final, based on which the Bank is required to recourse against the former Representative for the recovery of the amounts advanced, raising the objection that the Bank's right to bring recourse action is time-barred.

With reference to this complaint, the Board of Statutory Auditors, after having previously ascertained the BMPS shareholder status of the former Representative, thus verifying that the conditions set forth in the first paragraph of art. 2408 of the Italian Civil Code, has conducted the necessary investigations with the support of the competent Function of the Bank (Group General Counsel) to verify the possible relevance and validity of the complaints.

As a result of the investigations carried out, no irregularities were identified to be reported to the Shareholders' Meeting.

During the year, some claims and/or complaints were addressed to this Board, sometimes for information only, which did not concern matters or circumstances worthy of particular mention.

However, the Board of Statutory Auditors has always taken steps to verify the basis of what is being highlighted by the relevant officials and to promote, if necessary, the removal of the causes at the origin of the claim themselves, especially when referring to internal organisational aspects or conduct by the Bank that are not considered fully adequate.

5.4 Corporate governance and the Corporate Governance Code

The Board of Statutory Auditors operates within the scope of integrated governance and adequate and structured internal-company information flows. The Statutory Auditors has taken note of the information provided in the Annual Report on corporate governance and ownership structure for the year 2023, approved by the Board of Directors at its meeting on 29 February 2024, and has verified its compliance with art. 123-bis of the TUF, with the standard most recently released by Borsa Italiana, ascertaining the adequacy and completeness of the information contained therein as well as compliance with the provisions contained in the Corporate Governance Code for Listed Companies.

Banca MPS has adopted the Corporate Governance Code most recently approved in January 2020 by the Italian Corporate Governance Committee, promoted by ABI, ANIA, Assogestioni, Assonime, Borsa Italiana and Confindustria.

Compliance of the Bank with the above mentioned Code entails a balanced composition of the corporate bodies, the appropriate assignment of powers, the balanced differentiation of roles and responsibilities, as well as the prevention of conflicts of interest, and it bases its organisational fundamentals on effective controls, the identification and monitoring of all enterprise risks, adequate information flows and on corporate social responsibility.

The corporate governance system was also outlined in compliance with current regulations of the Code, banking and financial supervision. As a listed company and parent company of the Montepaschi Group, BMPS complies in fact with Italian and supranational regulatory requirements relating to issuers of securities listed on a regulated market and, being a bank, is subject to the applicable legislative, regulatory and supervisory provisions for banks and banking groups.

Based on the criteria laid down in the Supervisory provisions concerning the corporate governance of banks, BMPS is a significant bank in terms of size and operational complexity and is subject to the prudential supervision of the European Central Bank.

The corporate governance adopted is broken down into coordinated rules and structures functional to the performance of the Bank's activities and the pursuit of its strategies, guaranteeing transparent and accurate management of internal relationships amongst the various bodies and functions of the Company and between the latter and its shareholders and investors in general.

The Board of Statutory Auditors, in consideration of its responsibility to supervise the methods of concrete implementation of the Code, has also verified that the above-mentioned Report on Corporate Governance and Ownership Structure contains evidence of the "2023 Report" and the "Recommendations of the Committee for 2024" (hereinafter also referred to as the "Recommendations") addressed to Italian listed companies by the Italian Corporate Governance Committee in a letter dated 14 December 2023.

In detail, the Board of Statutory Auditors has acknowledged the results of the analysis carried out on the aforementioned Recommendations by the Board of Directors, expressed during the "meeting" of 29 February 2024, concerning the following thematic areas: Business Plan, Pre-meeting information and Optimal composition of the Board of Directors. The Recommendation relating to the multiple voting rights was not affected by any disclosure as the Bank's By-Laws do not provide for this type of voting rights.

The Supervisory provisions for banks (Bank of Italy Circular no. 285/13), together with the provisions contained in the Corporate Governance Code, establish the periodic self-assessment by the Board of Directors on its qualitative-quantitative composition, size, degree of diversity and professional qualifications, the guaranteed balance of non-executive and independent components, the adequacy of the appointment processes and selection criteria, continuing professional training, as well as with reference to the internal committees of the Board of Directors. The Board of Statutory Auditors is also required to carry out this self-assessment annually, pursuant to these Supervisory Provisions.

The Bank, in accordance with the *pro-tempore* regulations in force, has formalised in an internal Directive the organisational model adopted by the Group (principles and responsibilities) for the assessment of the fitness requirements established for the performance of the role of representatives of banks and other financial intermediaries, laying out the reference criteria for the specific assessment of the independence requirements applied to Directors and Statutory Auditors.

The Directive also includes the model of information flows between the Parent Company and the MPS Group Companies required to meet regulations on the fitness requirements of their representatives, in order to coordinate the success of the administrative procedures launched over time with the responsible Supervisory Authorities (Bank of Italy and European Central Bank) as prescribed by supervisory rules in force on the matter.

In this regard, in compliance with the Supervisory Provisions and related specific Regulation, the Board of Statutory Auditors, appointed for the three-year period 2023-2025 by the Shareholders' Meeting of 20 April 2023, underwent the self-assessment process for the part pertaining to the 2023 financial year, availing itself of the assistance of an external, independent advisor, expert in corporate governance practices and appointed in agreement with the Board of Directors for carrying out the relevant activities.

On 5 February 2024, the Board of Statutory Auditors concluded said self-assessment process on its adequacy in terms of composition and on the proper and effective functioning of the Body. The Board of Statutory Auditors, also on the basis of what was concluded by the advisor, who presented a document containing the results from the assessment activity performed and from which no specific areas for improvement of the operations of said Body are identified, has assessed its current composition as adequate, also in light of the diversity in terms of skills, expertise and experience, as well as gender, which ensure the effective functioning of the Body on a continuous basis. In any case, taking a cue from the results of the assessment, the Board also formulated some considerations functional to an increasingly effective development of its operations. For the purposes of the appointments under the agenda of the Shareholders' Meeting, the Board of Statutory Auditors still considers the recommendations made last year in its guidelines published on the Bank's institutional website to be valid.

As set forth in the Corporate Governance Code, the Board of Statutory Auditors has verified the correct application of the criteria and procedures aimed at meeting the requirements adopted by the Board of Directors for the annual evaluation of the independence of its non-executive members.

Similarly, the Board of Statutory Auditors also confirmed that its members meet the same requirements, moreover introducing the adoption of adequate internal safeguards for the prevention of any potential conflict of interest which could alter its regular functioning. The relative reports have been provided to the Supervisory Authorities concerned.

In particular, the Board of Statutory Auditors verified its own composition with regard to the independence criteria indicated by the same Code for directors and the provisions of article 148 of the Consolidated Law on Finance. The outcomes of this verification, communicated to the Board of Directors as provided for by the same Code, confirm that all members of the Board of Statutory Auditors of the Bank meet the legal and regulatory requirements.

Art. 17 of the By-Laws, in compliance with regulations and internal regulations in force, requires the establishment within the Board of Directors, with advisory and proposal functions, of the Risk and Sustainability Committee, the Appointments Committee, the Remuneration Committee and the Related Party Transactions Committee, consisting of from 3 to 5 Directors, all non-executive, the majority independent (with the exception of the Related Party Transactions Committee, consisting exclusively of Independent directors), ensuring the presence of at least one of the directors elected by non-controlling shareholders. The Committees have adopted their own regulations, duly approved with specific resolutions of the Board of Directors.

The current composition of the Board Committees is compliant with the provisions of the By-Laws.

Constant and accurate information was exchanged with the Risk and Sustainability Committee, whose meetings are attended by all Statutory Auditors. In accordance with the Rules of this Committee, at least the Chairperson of the Board of Statutory Auditors or an Auditor designated

thereby participate in the work of the committee. During the year, when deemed necessary, joint meetings of the Risk and Sustainability Committee were held with the Board of Statutory Auditors, also in order to guarantee a coordinated and timely review of the matters of common interest, encouraging their effective discussion in the joint presence of the Functions concerned.

This Control Body has also always attended all meetings of the Related Party Transactions Committee, the Appointments Committee and the Remuneration Committee.

During 2023, in order to adequately carry out its supervisory duties on compliance with the principles of proper administration, the Board of Statutory Auditors in office for the three-year period 2020-2022, has participated in the Ordinary Shareholders' Meeting of 20 April, which resolved, as mentioned, the renewal of the corporate bodies, with the appointment for the three-year period 2023-2025 of 15 members of the Board of Directors chaired by Mr Nicola Maione, attorney, confirming Mr Luigi Lovaglio as Chief Executive Officer of the Bank and of 5 members of the Board of Statutory Auditors (3 Standing Auditors and 2 Alternate Auditors).

On 8 May 2023, the Board of Directors unanimously appointed the Independent Director Marco Giorgino as Lead Independent Director of the Bank.

Following the resignation of Marco Giorgino, Chairman of the Risk and Sustainability Committee and member of the Remuneration Committee, the Board of Directors resolved on a new composition of the Board Committees, with the appointment of Ms Laura Martiniello as the new member of the Risk and Sustainability Committee and Paola De Martini and Lucia Foti Belligambi as new members of the Remuneration Committee. The Risk and Sustainability Committee also appointed as its Chair Ms Alessandra Giuseppina Barzaghi, an independent director and already a member of the Committee. To date, the Bank has not replaced the Lead Independent Director.

The Shareholders' Meeting, called to approve the 2023 Financial Statements, will have to make the necessary decisions as required by art. 2386 of the Italian Civil Code.

The Board of Statutory Auditors has acknowledged the process followed by the Board of Directors for the reinstatement of the same Body, which constitutes a specific item on the agenda of the Shareholders' Meeting.

During 2023, the Board of Statutory Auditors acquired useful information for the performance of its supervisory duties, including by participating in all meetings of the Board of Directors.

The Parent Company's Board of Statutory Auditors has also exchanged information with the corresponding Bodies of the main Subsidiaries regarding their systems of administration and control and the general performance of company activities.

The Board of Directors, by resolution passed at the meeting of 9 May 2023, in continuity with the previous three-year period, has set up a Supervisory Board 231 in charge of overseeing the functioning of and compliance with the 231 Model, as well as of ensuring that it is kept up to date. Information Flows are sent to this Board so that it can carry out constant monitoring of the activities at risk of commission of offences pursuant to Italian Legislative Decree 231/2001, both concerning the Bank and its main Subsidiaries.

The Supervisory Board 231, a collective body separate from the Board of Statutory Auditors, is composed of three members (meeting the requirements of integrity and professionalism), two of

whom are external professionals, Romina Guglielmetti and Gianluca Tognozzi and a Board Member, Paolo Fabris De Fabris, who meets the independence requirement set forth in the Corporate Governance Code. This Body has its own internal regulation governing its functions, composition and operating methods, as well as information flows with the Board of Directors and the Board of Statutory Auditors.

In this regard, in order to ensure the most complete performance of control activities, the functional and information liaison between the Board of Statutory Auditors and the Supervisory Board is ensured not only by the periodic exchange of the appropriate information flows, but also by the fact that the minutes of the Board's meetings, once approved, are transmitted and brought to the attention of the Board of Statutory Auditors. The exchange of information with this Control Body was found to be adequate and some interventions were shared with the Supervisory Board by the Audit Function on a few areas of major attention. In this context, the Board of Statutory Auditors has acknowledged the adequacy and effectiveness of the organisational model adopted in compliance with the applicable regulations, as well as the absence of reports (among those received) concerning its violation for the financial year under review, as reported to us by the Coordinator of the Body in the meeting held on 19 February 2024.

During 2023, the Supervisory Board and the Compliance Department, the structure responsible for project activities, presented to the Board of Statutory Auditors the requests for amendments to the "Organisation, Management and Control Model pursuant to Italian Legislative Decree 231/2001" (hereinafter also referred to as 231 Model), made necessary as a consequence of the regulatory changes on the administrative liability of entities and the organisational manoeuvres resulting from the 2022-2026 Business Plan. The update of the aforementioned 231 Model was approved by the Board of Directors during the Board meeting of 29 February 2024.

Conclusions

On the basis of what was illustrated above, we can confirm that no reprehensible facts and no irregularities were found worthy of specific mention to the shareholders and there were no significant omissions in the performance of the company business for the 2023 fiscal year.

Hence, the Board of Statutory Auditors, having considered the content of the Reports drawn up by the Independent Auditors, having acknowledged the declarations issued jointly, with a favourable outcome, by the Board of Directors, having heard the opinion of the Risk and Sustainability Committee and the Financial Reporting Officer, having no proposals to formulate pursuant to art. 153, paragraph 2 of the 'TUF', invites the Shareholders' Meeting to approve the Financial Statements of Banca Monte dei Paschi di Siena Spa for the year ended 31 December 2023 and the distribution of profit as proposed by the Directors, subject to authorisation by the ECB with regard to point (vi):

- (i) to the legal reserve in an amount equal to 10% of the accrued profit corresponding to EUR 202,152,501.67 in compliance with the provisions of Article 31 of the By-Laws;

- (ii) to the statutory reserve of an amount equal to 15% of the accrued profit corresponding to EUR 303,228,752.51, in compliance with the provisions of art. 31 of the By-Laws;
- (iii) to the unavailable reserve of an amount equal to EUR 52,696,808.33, in compliance with the provisions of Article 6 of Italian Legislative Decree 38/2005;
- (iv) to the non-distributable reserve in the amount of EUR 308,881,204.08, pursuant to the provisions of art. 26 paragraph 5-bis of Italian Law Decree no. 104 of 10 August 2023, converted with amendments by Italian Law no. 136 of 9 October 2023;
- (v) to cover previous net losses for an amount of EUR 354,598,588.77; these net losses are the result of the loss carried forward for EUR 232,747,069.96, following the resolution of the Shareholders' Meeting of 20 April 2023, and the net costs of EUR 121,851,518.81 charged directly to shareholders' equity in application of the international accounting standards IAS/IFRS;
- (vi) to the Shareholders, with distribution of a unit dividend of EUR 0.25 for each outstanding share, eligible for the payment of dividends, for a total maximum amount of EUR 314,922,426.50;
- (vii) the remaining profit to the extraordinary reserve for EUR 485,044,734.86.

BOARD OF STATUTORY AUDITORS

Signed by

The Chairman

Enrico Ciai

Signed by

The Standing Auditor

Lavinia Linguanti

Signed by

The Standing Auditor

Pierpaolo Cotone

Rome, 18 March 2024



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Reconciliation between published accounting statements and restated accounting statements

Balance sheet

Assets	31 12 2022 published	Merger of MPCS e MPLF	Intercompany elisions	31 12 2022 restated
10. Cash and cash equivalents	12,593,494,084	811,923,942	(2,222,178,407)	11,183,239,619
20. Financial assets measured at fair value through profit or loss	968,035,139	6,544,230,983	(704,035,093)	6,808,231,029
a) financial assets held for trading	597,640,598	6,459,896,610	(704,035,092)	6,353,502,116
c) other financial assets mandatorily measured at fair value	370,394,541	84,334,372	-	454,728,913
30. Financial assets measured at fair value through other comprehensive income	4,133,358,892	173,813,746	-	4,307,172,638
40. Financial assets measured at amortised cost	89,007,548,907	16,098,131,427	(16,340,158,866)	88,765,521,468
a) Loans to banks	18,081,015,784	1,947,372,835	(16,329,919,913)	3,698,468,706
b) Loans to customers	70,926,533,123	14,150,758,592	(10,238,952)	85,067,052,763
50. Hedging derivatives	996,144,071	26,931,222	-	1,023,075,293
60. Change in value macro-hedged financial assets (+/-)	(820,758,339)	-	-	(820,758,339)
70. Equity investments	2,361,518,061	-	(1,585,514,893)	776,003,168
80. Property, plant and equipment	2,234,042,362	65,561,559	(20,244,417)	2,279,359,504
90. Intangible assets	139,623,361	757,299	-	140,380,660
100. Tax assets	1,716,898,167	525,047,643	(105,918,845)	2,136,026,965
a) current	442,712,587	274,983,888	(27,876,855)	689,819,620
b) deferred	1,274,185,580	250,063,755	(78,041,990)	1,446,207,345
110. Non-current assets held for sale and disposal groups	65,497,194	-	-	65,497,194
120. Other assets	2,201,400,347	243,544,388	(166,066,939)	2,278,877,796
Total assets	115,596,802,246	24,489,942,209	(21,144,117,460)	118,942,626,995

follow: Balance sheet

Liabilities and Shareholders' Equity	31 12 2022 published	Merger of MPCS e MPLF	Intercompany elisions	31 12 2022 restated
10. Financial liabilities measured at amortised cost	102,822,301,123	18,118,872,217	(18,528,727,797)	102,412,445,543
a) due to banks	26,209,847,021	16,534,836,069	(18,087,006,611)	24,657,676,479
b) due to customers	68,079,875,831	1,156,077,777	-	69,235,953,607
c) debts securities issued	8,532,578,271	427,958,371	(441,721,185)	8,518,815,457
20. Financial liabilities held for trading	581,275,752	4,125,322,102	(664,385,841)	4,042,212,013
30. Financial liabilities designated at fair value	124,289,114	-	(27,261,615)	97,027,499
40. Hedging derivatives	301,490,822	-	-	301,490,822
50. Change in value of macro-hedged financial liabilities (+/-)	(77,362,561)	-	-	(77,362,561)
60. Tax liabilities	5,209	111,446	-	116,655
a) current	5,209	-	-	5,209
b) deferred		111,446		111,446
80. Other liabilities	3,240,022,667	396,887,999	(540,517,408)	3,096,393,258
90. Provision for employees severance pay	66,237,679	989,971	-	67,227,650
100. Provisions for risks and charges:	1,446,429,299	55,810,280	-	1,502,239,579
a) financial guarantees and other commitments	139,989,357	2,036,853	-	142,026,210
b) post-employment benefits	23,515,575	3,076,909	-	26,592,484
c) other provisions	1,282,924,367	50,696,518	-	1,333,620,885
110. Valuation reserves	(4,150,149)	(18,436,882)	(3,073,468)	(25,660,499)
140. Reserves	(221,405,587)	(240,155,869)	768,961,050	307,399,594
160. Share capital	7,453,450,788	2,029,863,875	(2,029,863,875)	7,453,450,788
180. Profit (loss) (+/-) for the year	(135,781,910)	20,677,070	(119,248,506)	(234,353,346)
Total Liabilities and Shareholders' Equity	115,596,802,246	24,489,942,209	(21,144,117,460)	118,942,626,995



Income statements

Item	31 12 2022 published	Merger of MPCS e MPLF	Intercompany elisions	31 12 2022 restated
10. Interest income and similar revenues	1,923,743,157	392,318,267	(171,088,373)	2,144,973,051
<i>of which interest income calculated applying the effective interest rate method</i>	<i>1,719,532,142</i>	<i>291,368,999</i>	<i>(157,435,218)</i>	<i>1,853,465,923</i>
20. Interest expense and similar charges	(651,970,462)	(197,450,212)	173,220,898	(676,199,776)
30. Net interest income	1,271,772,695	194,868,055	2,132,525	1,468,773,275
40. Fee and commission income	1,429,249,350	86,821,200	(23,504,662)	1,492,565,888
50. Fee and commission expense	(138,992,134)	(51,461,980)	19,466,497	(170,987,617)
60. Net fee and commission income	1,290,257,216	35,359,220	(4,038,165)	1,321,578,271
70. Dividends and similar income	128,697,784	5,009,273	-	133,707,057
80. Net profit (loss) from trading	(429,457)	(24,305,992)	964,068	(23,771,381)
90. Net profit (loss) from hedging	6,418,829	(246,423)	-	6,172,406
100. Gains/(losses) on disposal/repurchase of:	27,627,249	25,260,031	-	52,887,280
a) financial assets measured at amortised cost	26,381,598	43,925	25,213,211	51,638,734
b) Financial assets measured at fair value through other comprehensive income	1,233,427	2,895	-	1,236,322
c) financial liabilities	12,224	25,213,211	(25,213,211)	12,224
110. Net profit (loss) from financial assets and liabilities measured at fair value through profit or loss	49,080,691	3,424,362	(2,281,739)	50,223,314
a) financial assets and liabilities designated at fair value	33,932,057	-	(2,281,739)	31,650,318
b) other financial assets mandatorily measured at fair value	15,148,634	3,424,362	-	18,572,996
120. Net interest and other banking income	2,773,425,007	239,368,526	(3,223,311)	3,009,570,222
130. Net impairment (losses)/reversals on	(353,019,898)	(77,853,083)	(2,539,559)	(433,412,540)
a) financial assets measured at amortised cost	(352,931,132)	(77,739,448)	(2,539,559)	(433,210,139)
b) financial assets measured at fair value through other comprehensive income	(88,766)	(113,635)	-	(202,401)
140. Modification gains/(losses)	3,286,430	1,036,023	-	4,322,453
150. Net income from banking activities	2,423,691,539	162,551,4665	(5,762,870)	2,580,480,135
160. Administrative expenses:	(3,101,737,317)	(136,956,330)	33,589,339	(3,205,104,308)
a) personnel expenses	(2,229,869,631)	(59,945,466)	17,501	(2,289,797,596)
b) other administrative expenses	(871,867,686)	(77,010,864)	33,571,838	(915,306,712)
170. Net provision for risks and charges:	30,151,784	(23,273,741)	(9,223)	6,868,820
a) commitments and guarantees issued	(2,386,258)	756,350	(9,223)	(1,639,131)
b) other net provisions	32,538,042	(24,030,091)	-	8,507,951
180. Net adjustments to/recoveries on property, plant and equipment	(108,783,006)	(2,212,640)	1,891,321	(109,104,325)
190. Net adjustments to/recoveries on intangible assets	(62,020,312)	(219,473)	-	(62,239,785)
200. Other operating expenses/income	258,570,300	1,171,698	(36,089,128)	223,652,870
210. Operating expenses	(2,983,818,551)	(161,490,486)	(617,691)	(3,145,926,728)
220. Gains (losses) on investments	802,550	-	-	802,550
230. Valuation differences on property, plant and equipment and intangible assets measured at fair value	(28,107,648)	(2,601,035)	-	(30,708,683)
250. Gains (losses) on disposal of investments	331,518	-	-	331,518
260. Profit (loss) before tax from continuing operations	(587,100,592)	(1,540,055)	(6,380,561)	(595,021,208)
270. Tax (expense)/recovery on income from continuing operations	451,318,682	22,217,125	(112,867,945)	360,667,862
300. Profit (loss) after tax from continuing operations	(135,781,910)	20,677,070	(119,248,506)	(234,353,346)



Restated accounting statements

Balance sheet

Assets	31 12 2023	31 12 2022 restated
10. Cash and cash equivalents	13,007,988,916	11,183,239,619
20. Financial assets measured at fair value through profit or loss	6,300,041,534	6,808,231,029
a) financial assets held for trading	5,933,941,697	6,353,502,116
c) other financial assets mandatorily measured at fair value	366,099,837	454,728,913
30. Financial assets measured at fair value through other comprehensive income	2,451,954,593	4,307,172,638
40. Financial assets measured at amortised cost	91,248,148,670	88,765,521,468
a) Loans to banks	4,221,984,363	3,698,468,706
b) Loans to customers	87,026,164,307	85,067,052,763
50. Hedging derivatives	662,012,003	1,023,075,293
60. Change in value macro-hedged financial assets (+/-)	(509,161,267)	(820,758,339)
70. Equity investments	764,873,213	776,003,168
80. Property, plant and equipment	2,140,537,678	2,279,359,504
90. Intangible assets	156,248,000	140,380,660
100. Tax assets	2,140,027,418	2,136,026,965
a) current	308,367,948	689,819,620
b) deferred	1,831,659,470	1,446,207,345
110. Non-current assets held for sale and disposal groups	76,231,919	65,497,194
120. Other assets	3,451,279,157	2,278,877,796
Total assets	121,890,181,834	118,942,626,995



follow: Balance sheet

Liabilities and Shareholders' Equity		31 12 2023	31 12 2022 restated
10.	Financial liabilities measured at amortised cost	104,702,026,311	102,412,445,543
	a) due to banks	18,090,517,037	24,657,676,479
	b) due to customers	76,485,490,449	69,235,953,607
	c) debts securities issued	10,126,018,825	8,518,815,457
20.	Financial liabilities held for trading	2,905,740,318	4,042,212,013
30.	Financial liabilities designated at fair value	111,325,216	97,027,499
40.	Hedging derivatives	321,090,184	301,490,822
50.	Change in value of macro-hedged financial liabilities (+/-)	(16,080,698)	(77,362,561)
60.	Tax liabilities	4,486	116,655
	a) current	4,486	5,209
	b) deferred	-	111,446
80.	Other liabilities	3,190,195,976	3,096,393,258
90.	Provision for employees severance pay	68,936,172	67,227,650
100.	Provisions for risks and charges:	965,286,162	1,502,239,579
	a) financial guarantees and other commitments	153,459,660	142,026,210
	b) post-employment benefits	3,380,665	26,592,484
	c) other provisions	808,445,837	1,333,620,885
110.	Valuation reserves	20,069,492	(25,660,499)
140.	Reserves	146,612,410	307,399,594
160.	Share capital	7,453,450,788	7,453,450,788
180.	Profit (loss) (+/-) for the year	2,021,525,017	(234,353,346)
Total Liabilities and Shareholders' Equity		121,890,181,834	118,942,626,995

Income statements

Item	31 12 2023	31 12 2022 restated
10. Interest income and similar revenues	4,308,263,936	2,144,973,051
<i>of which interest income calculated applying the effective interest rate method</i>	<i>3,616,814,053</i>	<i>1,853,465,923</i>
20. Interest expense and similar charges	(2,212,246,492)	(676,199,776)
30. Net interest income	2,096,017,444	1,468,773,275
40. Fee and commission income	1,463,121,889	1,492,565,888
50. Fee and commission expense	(170,866,745)	(170,987,617)
60. Net fee and commission income	1,292,255,144	1,321,578,271
70. Dividends and similar income	143,017,534	133,707,057
80. Net profit (loss) from trading	54,690,743	(23,771,381)
90. Net profit (loss) from hedging	(4,611,335)	6,172,406
100. Gains/(losses) on disposal/repurchase of:	13,414,927	52,887,280
a) financial assets measured at amortised cost	12,558,017	51,638,734
b) Financial assets measured at fair value through other comprehensive income	1,034,167	1,236,322
c) financial liabilities	(177,257)	12,224
110. Net profit (loss) from financial assets and liabilities measured at fair value through profit or loss	5,752,982	50,223,314
a) financial assets and liabilities measured at fair value	(3,121,464)	31,650,318
b) other financial assets mandatorily at fair value through profit or loss	8,874,446	18,572,996
120. Net interest and other banking income	3,600,537,439	3,009,570,222
130. Net impairment (losses)/reversals on	(384,673,036)	(433,412,540)
a) financial assets measured at amortised cost	(385,255,508)	(433,210,139)
b) financial assets measured at fair value through other comprehensive income	582,472	(202,401)
140. Modification gains/(losses)	(6,780,660)	4,322,453
150. Net income from banking activities	3,209,083,743	2,580,480,135
160. Administrative expenses:	(1,997,309,777)	(3,205,104,308)
a) personnel expenses	(1,161,955,752)	(2,289,797,596)
b) other administrative expenses	(835,354,025)	(915,306,712)
170. Net provision for risks and charges:	454,223,439	6,868,820
a) commitments and guarantees issued	(14,984,156)	(1,639,131)
b) other net provisions	469,207,595	8,507,951
180. Net adjustments to/recoveries on property, plant and equipment	(99,928,082)	(109,104,325)
190. Net adjustments to/recoveries on intangible assets	(60,907,428)	(62,239,785)
200. Other operating expenses/income	208,958,041	223,652,870
210. Operating expenses	(1,494,963,807)	(3,145,926,728)
220. Gains (losses) on investments	(8,577,666)	802,550
230. Valuation differences on property, plant and equipment and intangible assets measured at fair value	(52,360,666)	(30,708,683)
250. Gains (losses) on disposal of investments	76,907	331,518
260. Profit (loss) before tax from continuing operations	1,653,258,511	(595,021,208)
270. Tax (expense)/recovery on income from continuing operations	368,266,507	360,667,862
300. Profit (loss) after tax from continuing operations	2,021,525,018	(234,353,346)



Reconciliation between the reclassified income statement as at 31 December 2023 and related statutory accounts

Income Statement accounts	31/12/23	Customer repayments	Redclassification of dividends on treasury stock transactions	Redclassification provision to BRBD and DGSF funds	Recovery of stamp duty and customers' expenses	DTA Fee	Restructuring costs (Personnel expenses for early retirement)	Restructuring costs (branch closing)	Securitization, Recapitalization and Commitment Costs	Training cost recovery	Cost of credit	31/12/23	Reclassified Income Statement accounts
		0.1								-		2,096.2	Net interest income
10 Interest income and similar revenues <i>of which interest income calculated applying the effective interest rate method</i>	4,308.3 3,616.8	0.1										4,308.4 -	
20 Interest expense and similar charges	(2,212.2)											(2,212.2)	
40 Fee and commission income	1,463.1	(3.7)										1,288.5	Net fee and commission income
50 Fee and commission expense	(170.9)	(3.7)										1,459.4 (170.9)	
70 Dividends and similar income	143.0											137.0	Dividends, similar income and gains (losses) on equity investments
80 Net profit (loss) from trading	54.7										(9.7)	70.2	Net profit (loss) from trading, from financial assets/liabilities measured at fair value and Net profit (loss) on disposals/repurchases
100 Gains/(losses) on disposal/repurchase of: a) financial assets measured at amortised cost b) Financial assets measured at fair value through other comprehensive income c) financial liabilities	13.4 12.6 1.0 (0.2)										(0.1) (0.1)	60.7 13.3 12.5 (0.2)	
110 Net profit (loss) from other financial assets and liabilities measured at fair value through profit or loss a) financial assets and liabilities designated at fair value b) other financial assets mandatorily measured at fair value	5.8 (3.1) 8.9			-							(9.5) (9.5)	(3.7) (3.1) (0.6)	
90 Net profit (loss) from hedging	(4.6)											(4.6)	Net profit (loss) from hedging
200 Other operating expenses/income	209.0				(182.3)	-				(5.5)		21.2	Other operating income (expenses)
160 Administrative expenses: a) personnel expenses b) other administrative expenses	(1,997.4) (1,162.0) (835.4)			129.5	182.3	62.9	8.2	2.2	12.4	5.5		(1,594.4) (1,149.6) (444.7)	Administrative expenses a) personnel expenses b) other administrative expenses
180 Net adjustments to/recoveries on property, plant and equipment	(99.9)				-							(160.8) (99.9)	Net value adjustments to property, plant and equipment and intangible assets
190 Net adjustments to/recoveries on intangible assets	(60.9)											(60.9)	
130 Net impairment (losses)/reversals on: a) financial assets measured at amortised cost b) financial assets measured at fair value through other comprehensive income	(384.7) (385.3) 0.6										(2.2) 3.7 (0.6)	(393.7) (381.6) (0.0)	Cost of customers credit 130a) financial assets measured at amortised cost - customers 100a) Loans to customers measured at amortised cost 110b) Loans 170a) Net provision for risks and changes related to financial guarantees issued and other commitments 140 Modification gains (losses)
140 Modification gains/(losses)	(6.8)										(15.0) (3.1)	(15.0) (3.1)	
170 Net provision for risks and charges: a) commitments and guarantees issued b) other net provisions	454.2 (15.0) 469.2	3.6 3.6									15.0 15.0	472.8 - 472.8	Net impairment (losses)/reversals on securities and loans to banks Net provisions for risks and charges
220 Gains (losses) on investments	(8.6)											(8.6)	Gains (losses) on investments
				(129.5)		(62.9)	(8.2)	(2.2)	(12.4)			(22.8) (129.5) (62.9)	Restructuring costs / One-off costs Risks and changes related to the SRF, DGS and similar schemes DTA Fee
230 Net gain (losses) on property, plant and equipment and intangible assets measured at fair value	(52.4)											(52.4)	Net gain (losses) on property, plant and equipment and intangible assets measured at fair value
250 Gains (losses) on disposal of investments	0.1											0.1	Gains (losses) on disposal of investments
260 Profit (loss) before tax from continuing operations	1,653.2				-						-	1,653.2	Profit (loss) for the period before tax
270 Tax (expense)/recovery on income from continuing operations	368.3											368.3	Income taxes for the year
280 Profit (loss) after tax from continuing operations	-				-						-	2,021.5	Profit (loss) after tax
290 Profit (loss) after tax from groups of assets held for sale and discontinued operations													
300 Profit (loss) for the year	2,021.5				-						-	2,021.5	Profit (loss) for the year before PPA
300 Profit (loss) for the year	2,021.5	-	-	-	-	-	-	-	-	-	-	2,021.5	Net profit (loss) for the year



Reconciliation between the reclassified income statement as at 31 December 2022 and related statutory accounts

Income Statement accounts	31/12/22	Customer payments	Reclassification of dividends on treasury stock transactions	Reclassification provision to BRKD and DGS funds	Recovery of stamp duty and customers' expenses	DTA Fee	Restatement costs (Personnel expenses for early retirement)	Restructuring costs (Closure of branches)	Securitization, Recapitalization and Commitment Costs	Cost of credit	31/12/22	Reclassified Income Statement accounts
10 Interest income and similar revenues <i>of which interest income calculated applying the effective interest rate method</i>	2,145.0 1,853.5	0.4 -	- -	- -	- -	- -	- -	- -	- -	- -	1,469.2 2,145.4	Net interest income
20 Interest expense and similar charges	(676.2)	-	-	-	-	-	-	-	-	-	(676.2)	
40 Fee and commission income	1,492.6	6.1	-	-	-	-	-	-	-	-	1,327.7	Net fee and commission income
50 Fee and commission expense	(171.0)	-	-	-	-	-	-	-	-	-	(171.0)	
70 Dividends and similar income	133.7	-	(5.0)	-	-	-	-	-	-	-	128.7	Dividends, similar income and gains (losses) on equity investments
80 Net profit (loss) from trading	(23.8)	-	5.0	0.9	-	-	-	-	-	(10.3)	74.9	Net profit (loss) from trading, from financial assets/liabilities measured at fair value and Net profit (loss) on disposals/repurchases
100 Gains/(losses) on disposal/repurchase of:	-	-	-	-	-	-	-	-	-	(2.9)	50.0	
a) financial assets measured at amortised cost	51.6	-	-	-	-	-	-	-	-	(2.9)	48.7	
b) financial assets measured at fair value through other comprehensive income	1.2	-	-	-	-	-	-	-	-	-	1.2	
c) financial liabilities	0.0	-	-	-	-	-	-	-	-	-	0.0	
110 Net profit (loss) from other financial assets and liabilities measured at fair value through profit or loss	-	-	-	0.9	-	-	-	-	-	(7.4)	43.7	
a) financial assets and liabilities measured at fair value	31.7	-	-	-	-	-	-	-	-	-	31.7	
b) other financial assets mandatorily measured at fair value	18.6	-	-	0.9	-	-	-	-	-	(7.4)	12.1	
90 Net profit (loss) from hedging	6.2	-	-	-	-	-	-	-	-	-	6.2	Net profit (loss) from hedging
200 Other operating expenses/income	223.7	-	-	-	(186.9)	-	-	-	-	-	36.8	Other operating income (expenses)
160 Administrative expenses:	-	-	-	173.4	186.9	62.9	926.4	-	3.2	-	(1,852.3)	Administrative expenses
a) personnel expenses	(2,289.8)	-	-	-	-	-	926.4	-	-	-	(1,363.4)	a) personnel expenses
b) other administrative expenses	(915.3)	-	-	173.4	186.9	62.9	-	-	3.2	-	(488.9)	b) other administrative expenses
180 Net adjustments to/recoveries on property, plant and equipment	(109.1)	-	-	-	-	-	-	-	-	-	(171.5)	Net value adjustments to property, plant and equipment and intangible assets
190 Net adjustments to/recoveries on intangible assets	(62.2)	-	-	-	-	-	-	-	-	-	(62.2)	
130 Net impairment (losses)/reversals on:	-	-	-	-	-	-	-	-	-	9.8	(419.3)	Cost of customers credit
a) financial assets measured at amortised cost	(433.2)	-	-	-	-	-	-	-	-	0.9	(432.3)	130a) financial assets measured at amortised cost - customers
b) financial assets measured at fair value through other comprehensive income	(0.2)	-	-	-	-	-	-	-	-	0.2	(0.0)	100a) Loans to customers measured at amortised cost
	-	-	-	-	-	-	-	-	-	2.9	2.9	110b) Loans
	-	-	-	-	-	-	-	-	-	7.4	7.4	170a) Net provision for risks and charges related to financial guarantees issued and other commitments
	-	-	-	-	-	-	-	-	-	(1.6)	(1.6)	140 Modification gains (losses)
140 Modification gains/(losses)	4.3	-	-	-	-	-	-	-	-	(1.1)	(1.1)	Net impairment (losses)/reversals on securities and loans to banks
170 Net provision for risks and charges:	-	(6.5)	-	-	-	-	-	-	-	1.6	2.0	Net provisions for risks and charges
a) commitments and guarantees issued	(1.6)	-	-	-	-	-	-	-	-	1.6	-	
b) other net provisions	8.5	(6.5)	-	-	-	-	-	-	-	-	2.0	
220 Gains (losses) on investments	0.8	-	-	-	-	-	-	-	-	-	0.8	Gains (losses) on investments
	-	-	-	-	-	-	(926.4)	-	(3.2)	-	(929.6)	Restructuring costs / One-off costs
	-	-	-	(174.3)	-	-	-	-	-	-	(174.3)	Risks and charges related to the SRF, DGS and similar schemes
	-	-	-	-	-	(62.9)	-	-	-	-	(62.9)	DTA Fee
230 Net gain (losses) on property, plant and equipment and intangible assets measured at fair value	(30.7)	-	-	-	-	-	-	-	-	-	(30.7)	Net gain (losses) on property, plant and equipment and intangible assets measured at fair value
250 Gains (losses) on disposal of investments	0.3	-	-	-	-	-	-	-	-	-	0.3	Gains (losses) on disposal of investments
260 Profit (loss) before tax from continuing operations	(595.0)	-	-	-	-	-	-	-	-	0.0	(595.0)	Profit (loss) for the period before tax
270 Tax (expense)/recovery on income from continuing operations	360.7	-	-	-	-	-	-	-	-	-	360.7	Income taxes for the year
280 Profit (loss) after tax from continuing operations	-	-	-	-	-	-	-	-	-	0.0	(234.4)	Profit (loss) after tax
290 Profit (loss) after tax from groups of assets held for sale and discontinued operations	-	-	-	-	-	-	-	-	-	-	-	
300 Profit (loss) for the year	(234.4)	-	-	-	-	-	-	-	-	0.0	(234.4)	Profit (loss) for the year before PPA
300 Profit (loss) for the year	(234.4)	-	-	-	-	-	-	-	-	0.0	(234.4)	Net profit (loss) for the year



Reconciliation between the reclassified balance sheet and related statutory accounts as at 31 December 2023

Balance-sheet Items - Assets	31/12/23	Loans to customers	Trading derivatives	Securities	Loans to Banks @ AC - Loans to Central Banks	Non-current assets held for sale and disposal groups	Non-current assets held for sale and disposal groups - Others	Change in value of macro-hedged financial assets	31/12/23	Reclassified Balance-sheet Items - Assets
10 Cash and cash equivalents	13,008.0	-	-	-	-	-	-	-	13,008.0	Cash and cash equivalents
20 Financial assets measured at fair value through profit or loss	6,300.0	-	-	-	-	-	-	-	17,248.9	Securities assets
a) financial assets held for trading	5,933.9	-	(2,123.4)	13,195.1	-	-	-	-	13,195.1	
b) financial assets designated at fair value	-	-	-	-	-	-	-	-	3,810.5	
c) other financial assets mandatorily measured at fair value	366.1	(122.9)	-	-	-	-	-	-	243.2	
30 Financial assets measured at fair value through other comprehensive income	2,452.0	-	-	(2,452.0)	-	-	-	-		
40 Financial assets measured at amortised cost:	91,248.2	-	-	-	-	-	-	-		
a) Loans to banks	4,222.0	-	-	(682.0)	(519.3)	-	-	-	3,020.7	Loans to banks
b) Loans to customers	87,026.2	123.2	-	(10,061.1)	-	(0.1)	-	-	77,088.2	Loans to customers
50 Hedging derivatives	662.0	-	2,123.4	-	-	-	-	-	2,785.4	Derivatives
60 Change in value of macro-hedged financial assets (+/-)	(509.2)	-	-	-	-	-	-	509.2	-	
70 Equity investments	764.9	-	-	-	-	-	-	-	764.9	Equity investments
80 Property, plant and equipment	2,140.5	-	-	-	-	75.8	-	-	2,216.3	Property, plant and equipment
90 Intangible assets	156.2	-	-	-	-	-	-	-	156.2	Intangible assets
- of which goodwill	-	-	-	-	-	-	-	-	-	- of which goodwill
100 Tax assets	2,140.1	-	-	-	-	-	-	-	2,140.1	Tax assets
a) current	308.4	-	-	-	-	-	-	-	308.4	a) current
b) deferred	1,831.7	-	-	-	-	-	-	-	1,831.7	b) deferred
110 Non-current assets held for sale and disposal groups	76.2	(0.3)	-	-	-	(75.7)	-	-	0.2	Other assets
120 Other assets	3,451.3	-	-	-	-	-	-	(509.2)	2,942.1	Non-current assets held for sale and disposal groups
										Other assets
Total Assets	121,890.2	-	-	-	-	-	-	-	121,890.2	Total Assets



Balance-sheet Items - Liabilities	31/12/23	Due to central banks	Due to banks	Debt securities issued - customers	Trading derivatives	Financial liabilities designated at fair value	Provision for staff severance indemnities	Change in value of macro-hedged financial liabilities (+/-)	Net Equity	31/12/23	Reclassified balance-sheet items - Liabilities
10 Financial liabilities measured at amortised cost	104,702.0	-	-	-	-	-	-	-	-	86,722.8	Direct funding
a) due to banks	18,090.5	(13,148.2)	(4,942.3)	-	-	-	-	-	-	-	-
b) due to customers	76,485.5	-	-	136.3	-	-	-	-	-	76,621.8	a) due to customers
c) debts securities issued	10,126.0	-	-	(136.3)	-	111.3	-	-	-	10,101.0	b) Securities issued
	-	13,148.2	-	-	-	-	-	-	-	13,148.2	Due to central banks
	-	-	4,942.3	-	-	-	-	-	-	4,942.3	Due to banks
20 Financial liabilities held for trading	2,905.7	-	-	-	(1,082.5)	-	-	-	-	1,823.2	On-balance-sheet financial liabilities held for trading
30 Financial liabilities designated at fair value	111.3	-	-	-	-	(111.3)	-	-	-	-	-
	-	-	-	-	-	-	-	-	-	1,403.6	Derivatives
40 Hedging derivatives	321.1	-	-	-	-	-	-	-	-	321.1	Hedging derivatives
	-	-	-	-	1,082.5	-	-	-	-	1,082.5	Trading derivatives
50 Change in value of macro-hedged financial liabilities (+/-)	(16.1)	-	-	-	-	-	-	16.1	-	-	-
60 Tax liabilities	-	-	-	-	-	-	-	-	-	-	Tax liabilities
a) current	-	-	-	-	-	-	-	-	-	-	a) current
b) deferred	-	-	-	-	-	-	-	-	-	-	b) deferred
70 Liabilities associated with non-current assets held for sale and disposal groups	-	-	-	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-	-	3,174.2	Other liabilities
	-	-	-	-	-	-	-	(16.1)	-	(16.1)	Change in value of macro-hedged financial liabilities (+/-)
	-	-	-	-	-	-	-	-	-	-	Liabilities associated with non-current assets held for sale and disposal group
80 Other liabilities	3,190.3	-	-	-	-	-	-	-	-	3,190.3	Other liabilities
90 Provisions for employees severance pay	68.9	-	-	-	-	-	(68.9)	-	-	-	-
100 Provisions for risks and charges:	965.3	-	-	-	-	-	-	-	-	1,034.2	Provisions for specific use
a) financial guarantees and other commitments	153.5	-	-	-	-	-	68.9	-	-	68.9	a) Provision for staff severance indemnities
b) post-employment benefits	3.4	-	-	-	-	-	-	-	-	153.5	b) Provision related to guarantees and other commitments issued
c) other provisions	808.4	-	-	-	-	-	-	-	-	3.4	c) Pension and other post-retirement benefit obligations
										808.4	d) Other provisions
110 Valuation reserves	20.1	-	-	-	-	-	-	-	(20.1)	-	-
140 Reserves	146.6	-	-	-	-	-	-	-	(146.6)	-	-
	-	-	-	-	-	-	-	-	-	9,641.7	Net equity
	-	-	-	-	-	-	-	-	20.1	20.1	a) Valuation reserves
	-	-	-	-	-	-	-	-	-	-	b) Redeemable shares
	-	-	-	-	-	-	-	-	-	-	c) Equity Instruments
	-	-	-	-	-	-	-	-	146.6	146.6	d) Reserves
	-	-	-	-	-	-	-	-	-	-	e) Share premium reserve
160 Share capital	7,453.5	-	-	-	-	-	-	-	-	7,453.5	f) Share capital
	-	-	-	-	-	-	-	-	-	-	g) Treasury shares (-)
	-	-	-	-	-	-	-	-	2,021.5	2,021.5	h) Net profit (loss) for the year
170 Treasury shares (-)	-	-	-	-	-	-	-	-	-	-	-
180 Profit (loss) for the year (+/-)	2,021.5	-	-	-	-	-	-	-	(2,021.5)	-	-
Total Liabilities and Shareholders' Equity	121,890.2	-	-	-	-	-	-	-	-	121,890.2	Total Liabilities and Shareholders' Equity



Reconciliation between the reclassified balance sheet and related statutory accounts as at 31 December 2022

Balance-sheet Items - Assets	31 12 2022	Loans to customers	Trading derivatives	Securities	Loans to Banks @ AC - Loans to Central Banks	Non-current assets held for sale and disposal groups - Property, plant and equipments	Non-current assets held for sale and disposal groups - Others	Change in value of macro-hedged financial assets	31 12 2022	Reclassified Balance-sheet Items - Assets
10 Cash and cash equivalents	11,183.2	-	-	-	-	-	-	-	11,183.2	Cash and cash equivalents
20 Financial assets measured at fair value through profit or loss	6,808.2	-	-	-	-	-	-	-	18,346.1	Securities assets
-	-	-	-	14,070.8	-	-	-	-	14,070.8	
a) financial assets held for trading	6,353.5	-	(2,390.5)	-	-	-	-	-	3,963.0	
b) financial assets designated at fair value	-	-	-	-	-	-	-	-	-	
c) other financial assets mandatorily measured at fair value	454.7	(142.6)	-	-	-	-	-	-	312.2	
30 Financial assets measured at fair value through other comprehensive income	4,307.2	-	-	(4,307.2)	-	-	-	-	(0.0)	
40 Financial assets measured at amortised cost:	88,765.5	-	-	-	-	-	-	-	-	
-	-	-	-	-	618.7	-	-	-	618.7	Loans to central banks
a) Loans to banks	3,698.5	-	-	(677.5)	(618.7)	0.1	-	-	2,402.4	Loans to banks
b) Loans to customers	85,067.1	142.5	-	(9,086.1)	-	(0.1)	-	-	76,123.4	Loans to customers
50 Hedging derivatives	1,023.1	-	2,390.5	-	-	-	-	-	3,413.6	Derivatives
60 Change in value of macro-hedged financial assets (+/-)	(820.8)	-	-	-	-	-	-	820.8	0.0	
70 Equity investments	776.0	-	-	-	-	-	-	-	776.0	Equity investments
80 Property, plant and equipment	2,279.4	-	-	-	-	65.5	-	-	2,344.9	Property, plant and equipment
90 Intangible assets	140.4	-	-	-	-	-	-	-	140.4	Intangible assets
- of which goodwill	-	-	-	-	-	-	-	-	-	- of which goodwill
100 Tax assets	2,136.0	-	-	-	-	-	-	-	2,136.0	Tax assets
a) current	689.8	-	-	-	-	-	-	-	689.8	a) current
b) deferred	1,446.2	-	-	-	-	-	-	-	1,446.2	b) deferred
-	-	-	-	-	-	-	-	-	1,458.1	Other assets
110 Non-current assets held for sale and disposal groups	65.5	0.1	-	-	-	(65.5)	-	-	0.1	Non-current assets held for sale and disposal groups
120 Other assets	2,278.9	-	-	-	-	-	-	(820.8)	1,458.1	Other assets
Total Assets	118,942.6	-	-	(0.0)	-	-	-	-	118,942.6	Total Assets



Balance-sheet Items - Liabilities	31 12 2022	Due to central banks	Due to banks	Debt securities issued - customers	Trading derivatives	Financial liabilities designated at fair value	Provision for staff severance indemnities	Change in value of macro-hedged financial liabilities (+/-)	Net Equity	31 12 2022	Reclassified balance-sheet items - Liabilities
10 Financial liabilities measured at amortised cost	102,412.4	-	-	-	-	-	-	-	-	77,851.7	Direct funding
a) due to banks	24,657.7	(19,176.9)	(5,480.8)	-	-	-	-	-	-	(0.0)	
b) due to customers	69,236.0	-	-	7.2	-	-	-	-	-	69,243.2	a) due to customers
c) debts securities issued	8,518.8	-	-	(7.2)	-	97.0	-	-	-	8,608.6	b) Securities issued
	-	19,176.9	-	-	-	-	-	-	-	19,176.9	Due to central banks
	-	-	5,480.8	-	-	-	-	-	-	5,480.8	Due to banks
20 Financial liabilities held for trading	4,042.2	-	-	-	(1,475.0)	-	-	-	-	2,567.2	On-balance-sheet financial liabilities held for trading
30 Financial liabilities designated at fair value	97.0	-	-	-	-	(97.0)	-	-	-	0.0	
40 Hedging derivatives	301.5	-	-	-	-	-	-	-	-	1,776.5	Derivatives
	-	-	-	-	1,475.0	-	-	-	-	301.5	Hedging derivatives
	-	-	-	-	-	-	-	-	-	1,475.0	Trading derivatives
50 Change in value of macro-hedged financial liabilities (+/-)	(77.4)	-	-	-	-	-	-	77.4	-	0.0	
60 Tax liabilities	0.1	-	-	-	-	-	-	-	-	0.1	Tax liabilities
a) current	0.0	-	-	-	-	-	-	-	-	0.0	a) current
b) deferred	0.1	-	-	-	-	-	-	-	-	0.1	b) deferred
70 Liabilities associated with non-current assets held for sale and disposal groups	-	-	-	-	-	-	-	-	-	-	
	-	-	-	-	-	-	-	-	-	3,019.0	Other liabilities
	-	-	-	-	-	-	-	(77.4)	-	(77.4)	Change in value of macro-hedged financial liabilities (+/-)
	-	-	-	-	-	-	-	-	-	-	Liabilities associated with non-current assets held for sale and disposal group
80 Other liabilities	3,096.4	-	-	-	-	-	-	-	-	3,096.4	Other liabilities
90 Provisions for employees severance pay	67.2	-	-	-	-	-	(67.2)	-	-	0.0	
100 Provisions for risks and charges:	1,502.2	-	-	-	-	-	-	-	-	1,569.4	Provisions for specific use
a) financial guarantees and other commitments	142.0	-	-	-	-	-	67.2	-	-	67.2	a) Provision for staff severance indemnities
b) post-employment benefits	26.6	-	-	-	-	-	-	-	-	142.0	b) Provision related to guarantees and other commitments issued
c) other provisions	1,333.6	-	-	-	-	-	-	-	-	26.6	c) Pension and other post-retirement benefit obligations
										1,333.6	d) Other provisions
110 Valuation reserves	(25.7)	-	-	-	-	-	-	-	25.7	0.0	
140 Reserves	307.4	-	-	-	-	-	-	-	(307.4)	(0.0)	
160 Share capital	7,453.5	-	-	-	-	-	-	-	-	7,500.8	Net equity
	-	-	-	-	-	-	-	-	(25.7)	(25.7)	a) Valuation reserves
	-	-	-	-	-	-	-	-	-	-	b) Redeemable shares
	-	-	-	-	-	-	-	-	-	-	c) Equity Instruments
	-	-	-	-	-	-	-	-	307.4	307.4	d) Reserves
	-	-	-	-	-	-	-	-	-	-	e) Share premium reserve
	-	-	-	-	-	-	-	-	-	7,453.5	f) Share capital
	-	-	-	-	-	-	-	-	-	-	g) Treasury shares (-)
	-	-	-	-	-	-	-	-	(234.4)	(234.4)	h) Net profit (loss) for the year
170 Treasury shares (-)	-	-	-	-	-	-	-	-	-	-	
180 Profit (loss) for the year (+/-)	(234.4)	-	-	-	-	-	-	-	234.4	0.0	
Total Liabilities and Shareholders' Equity	118,942.6	-	-	-	-	-	-	-	-	118,942.6	Total Liabilities and Shareholders' Equity



Disclosure of Independent auditors' fees

Pursuant to the provisions of art. 149-duodecies of the Consob Issuers' Regulations, the table below provides information on the fees paid to the Independent Auditors PricewaterhouseCoopers S.p.A. and to the companies belonging to the same network for the services detailed below:

		31 12 2023
Type of services	Service provider	Total
Auditing	Pricewaterhousecoopers S.p.a.	1,160
Other attest services	Pricewaterhousecoopers S.p.a.	679
Total		1,839

Amounts are exclusive of V.A.T., ancillary expenses and Consob contribution.

**PENSION FUNDS – Defined benefit pension funds without plan assets****Obligation for “Supplementary Pension Fund for personnel of former Provveditori”**

Accounting statement as at 31 12 2023	(in units of Eur)
Opening balance as at 01 01 2023	2,120,127
Increases	34,998
- provisions for the year	9,088
- Other	25,910
Decreases	261,198
- Benefit paid	261,198
- Other	-
Closing balance as at 31 12 2023	1,893,927

“Supplementary Pension Fund for personnel of former Credito Lombardo”

Accounting statement as at 31 12 2023	(in units of Eur)
Opening balance as at 01 01 2023	1,638,383
Increases	61,143
- provisions for the year	61,143
- Other	-
Decreases	212,788
- Benefit paid	208,555
- Other	4,233
Closing balance as at 31 12 2023	1,486,738