BASE PROSPECTUS dated 15 December 2017

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

€50,000,000,000
Debt Issuance Programme

Under this €50,000,000,000 Debt Issuance Programme (the "**Programme**"), Banca Monte dei Paschi di Siena S.p.A. (the "**Issuer**" or "**BMPS**" or "**Bank**") may from time to time issue notes (the "**Notes**") denominated in any currency agreed between the Issuer and the relevant Dealer (as defined below).

The maximum aggregate nominal amount of all Notes from time to time outstanding under the Programme will not exceed €50,000,000,000 (or its equivalent in other currencies calculated as described herein), subject to increase as described herein.

The Notes may be issued on a continuing basis to one or more of the Dealers specified under "General Description of the Programme" and any additional Dealer appointed under the Programme from time to time by the Issuer (each a "**Dealer**" and together the "**Dealers**"), which appointment may be for a specific issue or on an ongoing basis. References in this Base Prospectus to the "relevant Dealer" shall, in the case of an issue of Notes being (or intended to be) subscribed by more than one Dealer, be to all Dealers agreeing to purchase such Notes.

An investment in Notes issued under the Programme involves certain risks. For a discussion of these risks see "*Risk Factors*".

Application for approval has been made to the *Commission de Surveillance du Secteur Financier* (the "**CSSF**") in its capacity as competent authority under the Luxembourg Act dated 10 July 2005 on prospectus for securities (the "**Prospectus Act 2005**") to approve this document as a Base Prospectus. By approving this Base Prospectus, the CSSF shall give no undertaking as to the economic and financial soundness of the operation or the quality or solvency of the Issuer in accordance with Article 7(7) of the Prospectus Act 2005. Application has also been made to the Luxembourg Stock Exchange for Notes issued under the Programme to be admitted to trading on the Luxembourg Stock Exchange's regulated market and to be listed on the Official List of the Luxembourg Stock Exchange.

References in this Base Prospectus to Notes being "listed" (and all related references) shall mean that such Notes have been admitted to trading on the Luxembourg Stock Exchange's regulated market and have been admitted to the Official List of the Luxembourg Stock Exchange. The Luxembourg Stock Exchange's regulated market is a regulated market for the purposes of the Markets in Financial Instruments Directive (Directive 2004/39/EC).

The requirement to publish a prospectus under the Prospectus Directive (as defined under "*Important Information*" below) only applies to Notes which are to be admitted to trading on a regulated market in the European Economic Area and/or offered to the public in the European Economic Area other than in circumstances where an exemption is available under Article 3.2 of the Prospectus Directive. References in this Base Prospectus to "Exempt Notes" are to Notes for which no prospectus is required to be published under the Prospectus Directive. The CSSF has neither approved nor reviewed information contained in this Base Prospectus in connection with Exempt Notes.

Notice of the aggregate nominal amount of Notes, interest (if any) payable in respect of Notes, the issue price of Notes and certain other information which is applicable to each Tranche (as defined under "Terms and Conditions of the Notes") of Notes will (other than in the case of Exempt Notes, as defined above) be set out in a final terms document (the "**Final Terms**") which will be filed with the CSSF. Copies of Final Terms in relation to Notes to be listed on the Luxembourg Stock Exchange will also be published on the website of the Luxembourg Stock Exchange (www.bourse.lu). In the case of Exempt Notes, notice of the aggregate nominal amount of Notes, interest (if any) payable in respect of Notes, the issue price of Notes and certain other information which is applicable to each Tranche will be set out in a pricing supplement document (the "**Pricing Supplement**").

The Programme provides that Notes may be listed or admitted to trading, as the case may be, on such other or further stock exchanges or markets as may be agreed between the Issuer and the relevant Dealer. The Issuer may also issue unlisted Notes and/or Notes not admitted to trading on any market.

In certain circumstances, payments of interest relating to the Notes are subject to a deduction by way of "*imposta sostitutiva*" or withholding tax as more fully set out in Condition 6 (Taxation) of the Terms and Conditions and in "*Italian Taxation*".

The rating of certain Series of Notes to be issued under the Programme may be specified in the Form of Final Terms. Whether or not each credit rating applied for in relation to relevant Series of Notes will be issued by a credit rating agency established in the European Union and registered under Regulation (EC) No 1060/2009 (as amended) (the "**CRA Regulation**") will be disclosed in the Final Terms. Such credit rating agency will be included in the list of credit rating agencies published by the European Securities and Markets Authority on its website (at *http://www.esma.europa.eu/page/List-registered-and-certified-CRAs*) in accordance with the CRA Regulation. A credit rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning Rating Agency. Please also refer to "*Ratings of the Notes*" in the "*Risk Factors*" section of this Base Prospectus.

ARRANGER

NatWest Markets

DEALERS

Barclays

BofA Merrill Lynch

Citigroup

Crédit Agricole CIB

Credit Suisse

Deutsche Bank

Goldman Sachs International

HSBC

J.P. Morgan

Mediobanca - Banca di Credito Finanziario S.p.A.

Morgan Stanley

MPS Capital Services Banca per le Imprese S.p.A.

NatWest Markets

Société Générale Corporate & Investment Banking

UBS Investment Bank

IMPORTANT INFORMATION

Responsibility Statement

The Issuer accepts responsibility for the information contained in this Base Prospectus and the Final Terms for each Tranche of Notes issued under the Programme. To the best of the knowledge of the Issuer (having taken all reasonable care to ensure that such is the case) the information contained in this Base Prospectus is in accordance with the facts and does not omit anything likely to affect the import of such information.

This Base Prospectus constitutes a base prospectus for the issuance of Notes under the Programme by BMPS. This base prospectus constitutes a base prospectus in respect of all Notes other than Exempt Notes issued under the Programme for the purposes of Article 5.4 of Directive 2003/71/EC, as amended (which includes the amendments made by Directive 2010/73/EU to the extent that such amendments have been implemented in a relevant Member State of the European Economic Area) (the "Prospectus Directive").

This Base Prospectus is to be read in conjunction with all documents which are deemed to be incorporated herein by reference (see "Documents Incorporated by Reference" below). This Base Prospectus shall be read and construed on the basis that such documents incorporated by reference and form part of this Base Prospectus.

Save for the Issuer, no party has independently verified the information contained herein. Accordingly, no representation, warranty or undertaking, express or implied, is made and no responsibility or liability is accepted by the Dealers as to the accuracy or completeness of the information contained or incorporated in this Base Prospectus or any other information provided by the Issuer in connection with the Programme. No Dealer accepts any liability in relation to the information contained or incorporated by reference in this Base Prospectus or any other information provided by the Issuer in connection with the Programme.

No person is or has been authorised by the Issuer to give any information or to make any representation not contained in or not consistent with this Base Prospectus or any other information supplied in connection with the Programme or the Notes and, if given or made, such information or representation must not be relied upon as having been authorised by the Issuer or any of the Dealers.

Neither this Base Prospectus nor any other information supplied in connection with the Programme or any Notes (i) is intended to provide the basis of any credit or other evaluation or (ii) should be considered as a recommendation by the Issuer or any of the Dealers that any recipient of this Base Prospectus or any other information supplied in connection with the Programme or any Notes should purchase any Notes. Each investor contemplating purchasing any Notes should make its own independent investigation of the financial condition and affairs, and its own appraisal of the creditworthiness, of the Issuer and/or the Group. "Group" means BMPS and its Subsidiaries (as defined in the Agency Agreement). Neither this Base Prospectus nor any other information supplied in connection with the Programme or the issue of any Notes constitutes an offer or invitation by or on behalf of the Issuer or any of the Dealers to any person to subscribe for or to purchase any Notes.

Neither the delivery of this Base Prospectus nor the offering, sale or delivery of any Notes shall in any circumstances imply that the information contained herein concerning the Issuer is correct at any time subsequent to the date hereof or that any other information supplied in connection with the Programme is correct as of any time subsequent to the date indicated in the document containing the same. The Dealers expressly do not undertake to review the financial condition or affairs of the Issuer during the life of the Programme or to advise any investor in the Notes of any information coming to their attention. Investors should review, *inter alia*, the most recently published documents incorporated by reference into this Base Prospectus when deciding whether or not to purchase any Notes.

IMPORTANT – EEA RETAIL INVESTORS – If the Final Terms in respect of any Notes (or Pricing Supplement, in the case of Exempt Notes) includes a legend entitled "Prohibition of Sales to EEA Retail Investors", the Notes, from 1 January 2018 are not intended to be offered, sold or otherwise made available to and, with effect from such date, should not be offered, sold or otherwise made available to any retail investor in the European Economic Area ("**EEA**"). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU ("**MiFID II**"); (ii) a customer within the meaning of Directive 2002/92/EC ("**IMD**"), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or (iii) not a qualified investor as defined in Directive 2003/71/EC (as amended, the "**Prospectus Directive**"). Consequently no key information document required by Regulation (EU) No 1286/2014 (the "**PRIIPs Regulation**") for offering or selling the Notes or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.

IMPORTANT INFORMATION RELATING TO THE USE OF THIS BASE PROSPECTUS AND OFFERS OF NOTES GENERALLY

This Base Prospectus does not constitute an offer to sell or the solicitation of an offer to buy any Notes in any jurisdiction to any person to whom it is unlawful to make the offer or solicitation in such jurisdiction. The distribution of this Base Prospectus and the offer or sale of Notes may be restricted by law in certain jurisdictions. The Issuer and the Dealers do not represent that this Base Prospectus may be lawfully distributed, or that any Notes may be lawfully offered, in compliance with any applicable registration or other requirements in any such jurisdiction, or pursuant to an exemption available thereunder, or assume any responsibility for facilitating any such distribution or offering. In particular, no action has been taken by the Issuer or the Dealers which is intended to permit a public offering of any Notes or distribution of this document in any jurisdiction where action for that purpose is required. Accordingly, no Notes may be offered or sold, directly or indirectly, and neither this Base Prospectus nor any advertisement or other offering material may be distributed or published in any jurisdiction, except under circumstances that will result in compliance with any applicable laws and regulations. Persons into whose possession this Base Prospectus or any Notes may come must inform themselves about, and observe, any such restrictions on the distribution of this Base Prospectus and the offering and sale of Notes. In particular, there are restrictions on the distribution of this Base Prospectus and the offer or sale of Notes in the United States, the European Economic Area (including the United Kingdom and the Republic of Italy ("Italy")) and Japan, see "Subscription and Sale".

SUITABILITY OF INVESTMENT

The Notes may not be a suitable investment for all investors. Each potential investor in the Notes must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor may wish to consider, either on its own or with the help of its financial and other professional advisers, whether it:

(i) **has sufficient knowledge and experience to make a meaningful evaluation of the Notes, the merits and risks of investing in the Notes and the information contained or incorporated by reference in this Base Prospectus or any applicable supplement;**

(ii) **has access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Notes and the impact the Notes will have on its overall investment portfolio;**

(iii) **has sufficient financial resources and liquidity to bear all of the risks of an investment in the Notes, including Notes with principal or interest payable in one or more currencies, or where the currency for principal or interest payments is different from the potential investor's currency;**

(iv) understands thoroughly the terms of the Notes and is familiar with the behaviour of any relevant indices and financial markets; and

(v) is able to evaluate possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

Legal investment considerations may restrict certain investments. The investment activities of certain investors are subject to legal investment laws and regulations, or review or regulation by certain authorities. Each potential investor should consult its legal advisers to determine whether and to what extent (1) Notes are legal investments for it, (2) Notes can be used as collateral for various types of borrowing and (3) other restrictions apply to its purchase or pledge of any Notes. Financial institutions should consult their legal advisers or the appropriate regulators to determine the appropriate treatment of Notes under any applicable risk-based capital or similar rules.

The Notes have not been and will not be registered under the U.S. Securities Act of 1933, as amended, (the "Securities Act") and are subject to U.S. tax law requirements. Subject to certain exceptions, Notes may not be offered, sold or delivered within the United States or to or for the account or benefit of U.S. persons (see "Subscription and Sale" below).

PRESENTATION OF INFORMATION

All references in this document to "U.S. dollars", "U.S.$" and "$" refer to the currency of the United States of America and references to "euro", "€" and "Euro" refer to the currency introduced at the start of the third stage of European economic and monetary union pursuant to the Treaty on the Functioning of the European Union, as amended.

Unless otherwise indicated, the financial information contained in this Base Prospectus has been prepared in accordance with International Financial Reporting Standards as adopted by the European Union ("IFRS").

Unless otherwise indicated, any reference in this Base Prospectus to "Consolidated Financial Statements" is to the consolidated financial statements of the Group as at and for the years ended 31 December 2016 and 2015 audited by EY S.p.A., independent accountant, and incorporated by reference in this Base Prospectus.

The Consolidated Financial Statements are denominated in euro.

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STABILISATION

In connection with the issue of any Tranche of Notes, the Dealer or Dealers (if any) named as the Stabilisation Manager(s) (or persons acting on behalf of any Stabilisation Manager(s)) in the Form of Final Terms or Pricing Supplement may over-allot Notes or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail. However stabilisation may not necessarily occur. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the offer of the relevant Tranche of Notes is made and, if begun, may cease at any time, but it must end no later than the earlier of 30 days after the issue date of the relevant Tranche of Notes and 60 days after the date of the allotment of the relevant Tranche of Notes.

Any stabilisation action or over-allotment must be conducted by the relevant Stabilisation Manager(s) (or persons acting on behalf of any Stabilisation Manager(s)) in accordance with all applicable laws and rules.

RISK FACTORS

In purchasing Notes, investors assume the risk that BMPS may become insolvent or otherwise be unable to make all payments due in respect of the Notes. There is a wide range of factors which individually or together could result in BMPS becoming unable to make all payments due in respect of the Notes. It is not possible to identify all such factors or to determine which factors are most likely to occur, as BMPS may not be aware of all relevant factors and certain factors which they currently deem not to be material may become material as a result of the occurrence of events outside the control of BMPS. BMPS has identified in this Base Prospectus a number of factors which could materially adversely affect their businesses and ability to make payments due under the Notes. In addition, factors which are material for the purpose of assessing the market risks associated with Notes issued under the Programme are also described below.

RISK FACTORS RELATING TO THE ISSUER AND THE GROUP

Risks associated with the failed realisation of the Restructuring Plan

On 4 July 2017, the European Commission announced the approval of the Restructuring Plan 2017 – 2021 (the "**Restructuring Plan**") of the Bank, to allow the Precautionary Recapitalisation which, *inter alia*, shall be compliant with the legislation applicable to banks in the matter of "State aid".

In particular, the approval of the Restructuring Plan constituted the necessary pre-requirement for the Italian Ministry of Economy and Finance (**MEF**)'s publication of the decrees aimed at executing the Burden Sharing and the Precautionary Recapitalisation.

Indeed, the Restructuring Plan groups together common risks of an Industrial Plan, such as (i) those reporting in quantitative and qualitative terms the directors' purposes related to competitive strategies of a company and the actions that will be implemented for the purpose of achieving the strategic goals and (ii) assumptions of formal commitments given to the European Commission – consistent with the limits provided for the purpose of "State aid" by the European Commission – concerning the compliance with certain objectives whose grade of achievement will be periodically monitored by an independent subject (monitoring trustee). In particular, the first monitoring will be performed in respect to data as at 30 September 2017 during the last quarter of the 2017 financial year. The Issuer proposed – with favourable opinion of the DG Comp – the appointment of Degroof Petercam Finance as monitoring trustee (the latter has acted as monitoring trustee for the commitments of the Restructuring Plan 2013-2017). As at the date of this Base Prospectus, the trustee has not yet started the monitoring activity of the compliance of the data as at 30 September 2017 with the abovementioned objectives.

In summary, the Restructuring Plan provides for:

a) the Bank's return to an adequate profitability level, after the losses over the last financial years – with a target ROE exceeding 10 per cent. in 2021 – based on the following pillars:

   (i) enhancement of retail and small business customers sectors, thanks to a new simplified and highly digitalised business model;

   (ii) renewed operational model, with constant focus on efficiency, which will lead to a cost/income ratio target lower than 51 per cent. in 2021 and to a reallocation to the commercial activities of the resources engaged in administrative activities;

   (iii) radically improved management of credit risk, with a new organisational structure of the chief lending officer, which will allow the strengthening of the Bank's early detection processes and improve the cure rate, which will lead to a risk cost lower than 60 basis points and a gross NPE ratio lower than 13 per cent. in 2021; and

   (iv) enhanced capital and liquidity position, with targets in 2021 including a CET1 higher than 14 per cent., a loan to deposit ratio lower than 90 per cent. and an LCR higher than 150 per cent., with, at the same time, a significant reduction of the cost of funding; and

b) the disposal of almost the entire Doubtful Loan portfolio as at 31 December 2016 for gross Euro 28.6 billion.

It has to be considered that the Restructuring Plan, by means of the planned improvement guidelines and after the reduction trend of the Bank's market share on the main aggregate assets, aims at stabilising the commercial penetration level as effect of a progressive re-approaching of the performance to those realised by the main competitors. There is, therefore, the risk that the Bank is not able to be aligned with the development pace of its competitors.

Please further note that the Restructuring Plan also takes into account the SREP Decision (as defined below) and, accordingly, it is required that the Bank complies, starting from 1 January 2018, at consolidated level, with a CET1 ratio on a transitional basis equal to 9.44 per cent. and a total capital ratio, again on a transitional basis, equal to 12.94 per cent.. For more information on the capital adequacy requirements which shall be complied with by the Bank, reference is made to "*Risks associated with capital adequacy*".

In this respect, the Restructuring Plan actions are aimed, *inter alia*, at mitigating the Issuer's weakness profiles as highlighted by the ECB subsequent to the SREP Decision, with specific reference to the low profitability of the business model. The Restructuring Plan also takes into account the findings of the credit investigation conducted by the ECB and closed in May 2017.

The Restructuring Plan includes the preliminary estimate of the effects deriving from the entry into force of accounting principle IFRS 9. It should be finally considered that the Restructuring Plan includes an estimate of the RWA on the portfolio of the AIRB's exposure in default. The new methodological approach for the estimate of RWA exposure in default is still waiting for the validation by the ECB. In the following weeks, the Issuer will finalise the request for the use of such new methodological approach; the same may be used for determining the RWA, after the completion of the validation activity by the supervisory authority. In the meantime, the ECB may request the Issuer – which cannot adopt such new approach for the purpose of the regulatory calculation of RWA on exposure in default – for a RWA's regulatory "add-on". Should the methodology under the ECB's regulatory "add-on" result in a more strict estimate than the one implemented by the Bank, it may highlight further capital increases which are not quantifiable.

Finally, it should be considered that, on 4 October 2017, the ECB launched a consultation process on an *addendum* to the banks' guidelines on non-performing loans dated 20 March 2017. Should such *addendum* to the guidelines be approved substantially in the same terms as set in the consultation phase, it cannot be excluded that the Bank shall increase the coverage levels with respect of loans that may be qualified as Impaired Loans from 2018 for the purpose of complying with the regulation, with consequent possible failed realisation of the Restructuring Plan's goals, since the same Plan did not consider any possible impact of such *addendum* which has gone under consultation only after the Restructuring Plan's approval (for further information thereon, see "*Risks associated with the Group's exposure to Impaired Loans*" below).

Moreover, the Restructuring Plan is consistent with the commitments given by the Italian Government to the European Commission, concerning various aspects of the plan, such as, *inter alia*:

(i) *Burden Sharing*: the full realisation of burden sharing measures, as provided for by art. 23 of Decree 237 (as defined below);

(ii) *cost reduction measures*: annual restrictions in terms of number of branches, employees, cost/income and total operating costs, and additional costs reduction up to a maximum of Euro 100 million in case of deviation from net operating margin targets (gross of credit provisions);

(iii) *restrictions in the matter of advertising and commercial policy*: the Bank may not use the granting of "State aid" or the advantages deriving therefrom for advertising purposes aimed at promoting its products or its market positioning. Furthermore, it shall not adopt a particularly aggressive commercial policy or one it would have in any case not adopted should it not have had access to "State aid";

(iv) *assignment of assets*: assignment of foreign banks, meaning Banca Monte dei Paschi Belgio S.A. and Monte Paschi Banque S.A. (undertaking already given within the context of the Restructuring Plan 2013 – 2017 which was not completed), disposal of a list of non-strategic equity interests during the term of the plan, without prejudice to the Bank's capital position, and of a portion of real estate assets;

(v) *risk containment*: undertaking to finalise the assignment of the NPL portfolio (the "**Assignment of the NPL Portfolio**"), enhancement of risk control measures (with specific reference to the adequacy of lending policies and commercial policies adopted by the Bank, as well as to the monitoring of such

risk), restrictions to treasury finance activities in terms of VaR and of nature of instruments dealt with;

(vi) *prohibition to carry out acquisitions*: specifically the Bank may not proceed with the acquisition of any interest or asset, unless (a) the European Commission authorises such acquisition in exceptional circumstances, demanding financial soundness to be restored or competition to be assured, (b) the acquisition does not exceed certain thresholds in terms of price, and (c) such acquisition is put in place in the context of the ordinary banking activity in respect of the management of obligations already outstanding to customers showing financial difficulties or provided for in the context of the same Restructuring Plan;

(vii) *restrictions on payments of coupons under outstanding instruments and to execute liability management transactions*: the Bank may not execute payments in favour of outstanding instruments, unless the payment obligation arises from a legal duty, and, equally, may not enter into repurchase transactions of instruments issued by it without complying with predefined conditions and the prior approval of the European Commission;

(viii) *prohibition to pay dividends*: the Bank may not proceed with the payment of dividends, except in case of occurrence of certain conditions (for more information in this respect, reference is made to "*Risks associated with the failed distribution of dividends*" below); and

(ix) *remuneration of employees:* establishment of a remuneration cap corresponding to ten times the average salary of the Bank's employees.

Investors shall consider that there is no certainty that the Bank will be able to realise, in whole or in part, the objectives and commitments undertaken in the context of the Restructuring Plan and that they will be able to adequately address the weakness profiles which may be found by the ECB (specifically in the context of the SREP Decision) or which may be found by the competent authorities in the future (also as part of the stress test planned for 2018 or similar exercises). For more information on the uncertainties associated with future stress tests, reference is made to "*Risks associated with the uncertainty of future outcomes of stress tests or asset quality review exercises*".

In particular, the Restructuring Plan contains a set of forecasts and estimates (i.e. — among the others — (i) the positive conclusion of the Assignment of the NPL Portfolio; (ii) the attainment of the waiver on Loss Given Default (the "**LGD**") models from the ECB; (iii) the positive evolution of the macroeconomic context in line with what assumed in the scenario analysis; (iv) the improvement of credit quality and credit risk management with the consequent substantial reduction of the related cost; (v) the structural rebalancing of the liquidity position; (vi) the realisation of assignments of the non-performing loans' recovery platform, as well as the closing of foreign branches; (vii) the impact related to the introduction of the new international accounting principle IFRS 9 on 1 January 2018; (viii) the maintenance of the current minimum regulatory capital requirements provided for by the ECB following the SREP Decision; and (ix) the inefficacy of the agreements related to FRESH 2008, which is at the basis of the requalification of the part linked to the nominal amount of FRESH 2008 shares from Additional Tier 1 to CET1) based on the realisation of future events and actions to be undertaken, by directors and the management, inclusive of hypothetical assumptions subject to the risks and uncertainties which characterise, *inter alia*, the current macroeconomic scenario and the evolution of the legislative framework, relating to future events and actions which will not necessarily occur, over which directors and the management have only partial or no control, on the performance of the main capital and economic figures or of other factors affecting the evolution thereof. Accordingly, it cannot be excluded that the assumptions on which the forecasts and estimates contained in the Restructuring Plan are based may prove to be unreliable or may not take place, even due to external facts that the Issuer cannot control.

Furthermore, in the event of any deviation, even a minimal one, from the European Commission's provisions that may involve the failure to comply with the conditions according to which the decision was adopted, the European Commission may consider ineffective the statement of compatibility with the "State aid" due to the failed realisation or violation of any condition. Consequently, the European Commission may either decide to undertake a new formal investigation procedure or directly file a petition in front of the European Court of Justice, for the purposes of obtaining the declaration of non-fulfilment of the undertakings given by the Italian State. Although less probable, the European Commission may also consider that the "State aid" has been carried out unlawfully and consequently undertake the relevant specific procedure. Such scenario is less probable since it occurs where no specific conditions are violated but rather the State aid's project is implemented without complying with the provisions as set thereon (i.e. in a different area; without

implementing planned hirings; or in light of a decreased of investments). In the context of such procedures, the European Commission may issue urgent measures, such as an injunction requesting the State to suspend the implementation of aid measures or, if the conditions are met, to proceed with the recovery of the already given "State aid". In this respect, the Issuer may cope with significant damages, also reputational damages, considering the re-launching activity of the Bank, with consequent negative effects on the activities and on the Bank's and/or the Group's economical, capital and/or financial condition. In addition to the reputational damages, due to negative publicity arising from the non-fulfilment of the Restructuring Plan's conditions, the Issuer would be further exposed to – *inter alia* – the risk of additional measures aimed at rebalancing the usual competition of the sector (included other forms of Burden Sharing), as well as the risk associated with the restitution of the given "State aid".

Finally, one or more rating agencies may downgrade the Bank's ratings, with consequent increased cost of funding. For more information on the risks associated with the rating assigned to the Issuer, reference is made to "*Risks associated with the ratings assigned to the Issuer*" below.

Risks associated with the Group's exposure to Impaired Loans

a) Bank's exposure to Impaired Loans

As at 30 September 2017, net loans to customers amounted to Euro 91.0 billion, down by 14.7 per cent. compared to Euro 106.7 billion as at 31 December 2016 (Euro 111.4 billion as at 31 December 2015). The aggregate's reduction is mostly concentrated on the impaired loans' section (Euro -10,0 billion), resulting from the registration of the assigning loans as assets being dismissed, in addition to the adjustments carried out in the financial year. Within the aggregate figure, non-impaired loans to customers amounted to Euro 80.7 billion and Impaired Loans (as defined in Circular No. 272 issued by the Bank of Italy on 30 July 2008 - as amended from time to time, the "**Impaired Loans**") to Euro 10.3 billion, respectively corresponding to 88.7 per cent. and 11.3 per cent. of total loans to customers (81.0 per cent. and 19.0 per cent. as at 31 December 2016; 78.3 per cent. and 21.7 per cent. as at 31 December 2015).

As at 30 September 2017, Impaired Loans gross of value adjustments amount to Euro 45.0 billion (Euro 19.6 billion net of assigned loans), down of Euro 0.8 billion, decreased by 1.7 per cent. (reduction of Euro 26.2 billion, equal to 57.2 per cent. net of assigned loans) compared to the figure recorded as at 31 December 2016 equal to Euro 45.8 billion (down by 2.3 per cent. compared to 31 December 2015). With reference to the various aggregate figures, the first nine months of 2017 records an increase by Euro 2.4 billion of "Doubtful Loans" (net of assigned loans the decrease amounts to Euro 23 billion), a contraction of "Unlikely to Pay" by Euro 2.9 billion and of "Past Due Impaired Exposures" (Euro 0.3 billion) (together and respectively, the "**Doubtful Loans**", the "**Unlikely to Pay**", and the "**Past Due Impaired Exposures**" as defined in Circular No. 272 issued by the Bank of Italy on 30 July 2008 – as amended from time to time). As at 30 September 2017, Impaired Loans net of value adjustments, amount to Euro 15.1 billion (Euro 10.3 billion net of loans subject matter of assignment), down by Euro 5.1 billion, with a 25.5 per cent. decrease, compared to the figure recorded as at 31 December 2016 equal to Euro 20.3 billion (down by 15.9 per cent. compared to 31 December 2015). The third quarter dynamic highlights a reduction of the impact on loans to customers of both net Doubtful Loans equal to 7.6 per cent. (2.7 per cent. net of assigned loans) compared to 9.7 per cent. as at 31 December 2016, and Unlikely to Pay (equal to 7.6 per cent. compared to 8.5 per cent. recorded as at 31 December 2016). The impact on loans to customers of Past Due Impaired Exposures are substantially unchanged.

Moreover, as at 30 September 2017 the coverage percentage of Doubtful Loans amounted to 77.2 per cent. (62.5 per cent. net of the assigned loans), significantly increased compared to 64.8 per cent. as at 31 December 2016 due to net adjustments recorded during the third quarter of 2017 over the perimeter of Doubtful Loans included in the NPL portfolio, for the purpose of aligning the book value to the expected assignment price in the context of the Assignment of the NPL Portfolio transaction (around Euro 4 billion). As at the same date, the coverage of Unlikely to Pay and Past Due Exposures is equal to 41.2 per cent. and 24.8 per cent., up compared to the figure recorded as at 31 December 2016 (respectively 40.3 per cent. and 23.3 per cent.). As a consequence, the total coverage of Impaired Loans increased from 55.6 per cent. as at 31 December 2016 to 66.4 per cent. (net of assigned loans of which the coverage amounts to 47.5 per cent.) as at 30 September 2017.

As at 30 September 2017, the Group recorded net value adjustments for Impaired Loans, financial assets and other transactions for Euro 4,902 million, increased by Euro 2,883 million compared to those recorded in the same period of the prior financial year, mainly due to adjustments recorded during the third quarter of 2017

over the perimeter of Doubtful Loans included in the NPL portfolio, for the purpose of aligning the book value to the expected assignment price in the context of the Assignment of the NPL Portfolio.

In March 2017, the European Central Bank published a document called "*Guidance to banks on non-performing loans*", which provides recommendations for banks with high NPL ratios on the definition of an NPL management strategy in line with the business plan, the risk monitoring and management system, the governance and control system, as well as the definition of regulatory disclosure.

In relation to the 2016 financial year, the Group recorded net value adjustments for Impaired Loans to banks and customers for aggregate Euro 4.467 million, significantly increased compared to Euro 1,991 million of the prior financial year. The difference is mostly due to higher adjustments due to the updated methodologies and parameters used in the credit assessment. Specifically, such variations, which already took into account the indications contained in the draft "*Guidance to banks on non–performing loans*" published in December 2016 as well as internal valuations, concerned the changes in the calculation methodology of the fund for discounting Unlikely to Pay, the increase of the analytical assessment threshold of Unlikely to Pay, the update of haircuts on real estate guarantee and the definition of minimum coverage floors on the so called "extended doubtful loans".

For more information on the risks associated with the impairment of loans, reference is made to "*Credit risk and risk of credit quality deterioration*" below.

b) Assumptions at the basis of the Restructuring Plan and SREP Decision

The Restructuring Plan assumes the successful completion of the Assignment of the NPL Portfolio which is structured in more phases to be completed by 30 June 2018. Furthermore, the Restructuring Plan assumes the realisation of certain measures undertaken by the management aimed at improving efficiency of (i) the management of the Unlikely to Pay portfolio, in which respect the cure rate is expected to increase and the danger rate is expected to decrease, and (ii) the management of the non-impaired portfolio, confirmed by the expected reduction of the default rate. The assumed successful evolution of the NPE ratio in the period 2016-2021 takes the advantages also of the effects connected to further assignments of (i) position belonging to Unlikely to Pay portfolio, in the period from 2017 to 2019 (other than the Assignment of the NPL Portfolio) for an overall exposure of around Euro 4.5 billion and (ii) doubtful position for an overall exposure of around Euro 2 billion, in the period 2020-2021. Finally, the evolution of the NPE ratio is further correlated with factors which are outside the control of the management such as the improvement of the reference macroeconomic environment.

It should be noted that the derecognition of the NPL Portfolio (as defined below) constitutes one of the assumptions on which the SREP was conducted, as per ECB communication of 19 June 2017 (the "**SREP Decision**"). Specifically, in the context of the SREP Decision, the ECB noted how the Issuer's credit quality is highly weak, with a percentage of Impaired Loans equal to around one third of the Bank's total exposures. In this context, the derecognition of the NPL Portfolio constitutes a key step to allow the Issuer to reduce its Impaired Loans exposure and therefore improve the overall credit quality. Should the realisation of the derecognition of the NPL Portfolio not be possible for the above stated reasons or due to the occurrence of other events even outside the Issuer's control, it cannot be excluded that the ECB may ask the Issuer to adopt extraordinary measures or request the Group to comply with additional requirements, including capital buffers, with possible negative effects on the economic, capital and financial condition of the Group.

* * *

Should the Issuer not be able to execute the Assignment of the NPL Portfolio, in particular the derecognition thereof, the Issuer and/or the Group may be subject to extraordinary actions and/or measures by the competent authorities, which may include, *inter alia*, the application of the resolution tools as per Legislative Decree No. 180 of 16 November 2015, as amended from time to time ("**Decree 180**"), implementing the BRRD (as defined below) in Italy.

In particular, in respect of the derecognition of the NPL Portfolio, there is also the remote risk that the Bank may not be able to execute it, in whole or in part, within the expected times.

Specifically, it should be noted that Quaestio's commitment to purchase the relevant securities (meaning the securities that will be issued under the Assignment of the NPL Portfolio, the "**Relevant Notes**") is subject to certain conditions (to be fulfilled by 31 December 2017) including the completion of the Capital Increase (as defined below) reserved to MEF and the Burden Sharing (such condition already occurred in August 2017), and the general attainment of all necessary approvals and authorizations by the competent authorities for the

entire transaction (the Restructuring Plan's approval has already been obtained). Additionally, it has to be considered that the Quaestio Agreement is subordinated to the completion of the Offer (as described below under the section "*Banca Monte dei Paschi di Siena S.P.A. – Major Events – Recent developments – 2017 – Voluntary public offering for exchange and settlement*" of this Base Prospectus). In this respect, the Issuer deems that the literal meaning of "completion" is not linked to the results of the same Offer.

Finally, it should be further considered that the Quaestio's commitment is subordinated to the non-occurrence of a material adverse change (a) in relation to the activity, the financial conditions (or other) and yield of the Assigning Banks (as defined below), which may adversely affect their ability to fulfil their obligations under the securitisation documents, and/or (b) either in the international market or in significant domestic markets (both debt and capital), the absence of regulatory changes which may have a significant impact on securitisations and/or on investments in Relevant Notes (e.g. changes to GACS and/or regulations governing precautionary recapitalisation. On the contrary, in relation to the *addendum* to the ECB guidelines on non-performing loans of 20 March 2017 – which are, as at the date of the Base Prospectus, still in the consultation phase – to knowledge of the Issuer, should the aforementioned regulatory measures be approved substantially in the same terms as set out in the consultation phase and enter into force prior to the completion of the Assignment of the NPL Portfolio, it will not produce any effect against the conclusion of Quaestio's Agreement), the negotiation and definition in good faith of securitisation contractual documents in line with the principles set out in the Quaestio Agreement, the transferring Banks' fulfilment of the undertakings made in connection with the interim management of the NPL Portfolio. With respect to the condition connected to the material adverse change, it should be noted that the same applies to extraordinary circumstances, the occurrence of which is considered extremely remote to the best of the Issuer's knowledge as at the date of the Base Prospectus.

Furthermore, the Quaestio Agreement only sets out the main terms and conditions of the securitisation agreed with Quaestio which will be the basis for the subsequent negotiation of further agreements also with other counterparties and will regulate the transaction in detail. Therefore, as at the date of the Base Prospectus, the securitisation agreements have not yet been executed, however, on the basis of the information available to the Issuer, there are no elements for believing that such agreements may differ from the main terms and conditions set forth in the Quaestio Agreement.

For further information on (i) the risks associated with the transfer of the NPL Portfolio, and (ii) the subject of the Quaestio's Agreement, please refer to paragraph "*Risks associated with the Precautionary Recapitalisation intervention*" below.

In general, accounting derecognition means the deletion of the doubtful loan portfolio being assigned and the subsequent securitisation from the Bank's financial statement. The satisfaction of the conditions for the accounting derecognition shall be evidenced through both qualitative and quantitative analyses aimed at proving compliance with the conditions provided for by the IFRS. In particular, the full derecognition is achieved when all the risks and benefits related to the relevant portfolio have been substantially transferred or when the Bank has neither transferred nor held all the risks and benefits of such portfolio but has lost control thereof, or the assignee is fully entitled to dispose thereof. In this respect, as at the date of the Base Prospectus, such accounting analyses have not been completed yet. This is mostly particularly due to securitisation's contracts having not been signed yet, although the terms and conditions of such contracts have been set out into the Quaestio Agreement. However, the almost full assignment of Junior and Mezzanine Notes and the transfer of the governance to Quaestio, on behalf of Atlante II, highlight that a wide portion of the risks/benefits, as well as the control over the NPL Portfolio, will be transferred to the investor by June 2018. Once the securitisation's agreements are finalised, the Bank will confirm what appears already clear in the transaction's structure with specific quantitative tests, with the aim of supporting the accounting derecognition.

Besides the accounting derecognition, the Bank will also proceed with the prudential derecognition which is conditional upon the authorisation to the Significant Risk Transfer by the ECB. "**Significant Risk Transfer**" means, in fact, the exclusion from the Bank's capital requirements for capital absorptions (in terms of risk weighted assets and expected loss) of the securitised NPL Portfolio object of securitisation, according with the rules governing the recognition of Significant Risk Transfer provided for by the CRR and the European Banking Authority ("**EBA**") guidelines. The Significant Risk Transfer for prudential purposes, as opposed to the derecognition, is subject to periodic assessment and if the conditions for the recognition of the Significant Risk Transfer are no longer satisfied due to the occurrence of supervened events, the securitised portfolio would be re-included in the computation of capital absorptions.

In this respect, when the securitisation's contracts are finalised (which will not differ significantly from the general conditions set forth in the Quaestio Agreement entered into on 23 June 2017), the Bank will send a specific preliminary application to the ECB. Such preliminary application will be then integrated with the final version of the quantitative and qualitative findings with respect to transfer of the relevant risk, taking into account, *inter alia*, the final tranching of the securitisation at the end of the process of obtaining the investment grade rating of the Senior A1 and, successively, of the attainment of the State guarantee provided for by Law Decree 14 February 2016 ("**GACS**") on the Senior A1 Notes (the completion of such processes is expected for the second quarter of 2018). In relation to the impacts of the failed derecognition of the NPL Portfolio, it is worthy to underline that:

(i) from a capital standpoint, the Issuer may record an increase of RWA — higher than the one estimated for the purpose of the Restructuring Plan — in the event that the guidelines related to the estimate of PD, the LGD and the management of default exposures, put in consultation by the EBA on 14 November 2016, are adopted in the same terms as set out in the consultation phase. Indeed, in such a case, the Bank may record an increase of RWA related to non-performing exposure since, as at the date of the Base Prospectus, the Impaired Loans which are ascribable to the application's area of the internal models do not contribute to determine the RWA, except for the valuations included into the Restructuring Plan (for more information, see "*Risks associated with the failed realisation of the Restructuring Plan*" above). Furthermore, in the event of failed derecognition of the NPL Portfolio, the Issuer would not manage to reduce the RWA of non-performing exposures, according to the extent and the manners provided for by the Restructuring Plan;

(ii) from a financial standpoint – although the loans included into the NPL Portfolio have already been object of a significant increase of the coverage level, following the alignment of their accounting value with the assignment price provided for within the context of the Assignment of the NPL Portfolio – it cannot be excluded that the residual value may be subject to further adjustments with a consequent negative impact, though estimated not significant, on the Issuer's condition. However, it is understood that the Bank may have to carry out further adjustments relating to the Impaired Loans not included into the NPL Portfolio (for more information on the risk associated with the deterioration of credit quality, reference is made to "*Credit risk and risk of credit quality deterioration*" below);

(iii) finally, from the impacts' perspective in terms of liquidity, the failed derecognition of the NPL Portfolio (through the assignment of the securities issued under the securitisation aimed at the assignment of the same Portfolio, for a contribution to the Bank's liquidity structure estimated at a value higher than Euro 5 billion) may force the Issuer to use alternative funding sources, potentially more expensive, with possible adverse effects on the economic, capital and financial condition of the Bank and/or the Group.

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In relation to any future capital impacts deriving from the Bank's exposure to Impaired Loans, it should be noted that, on 4 October 2017, the ECB launched a consultation process on an *addendum* to the banks' guidelines on non-performing loans dated 20 March 2017. In particular, the consultation document prepared by the ECB, which has such *addendum* as object, provides with respect to all the loans that will be qualified as Impaired Loans from 2018, it shall be achieved a total coverage within two years for unsecured loans and within seven years for secured loans at the latest. Should such *addendum* to the guidelines be approved substantially in the same terms as set in the consultation phase, it cannot be excluded that the Bank shall increase the coverage levels with respect of loans that may be qualified as Impaired Loans from 2018 for the purposes of complying with the regulation, with consequent negative impacts on the Group's capital adequacy indicators.

Considering that the relevant legislative framework is still evolving (for further details refer to paragraph "*Risks associated with the evolution of the banking and financial sector regulation and of the additional provisions the Group is subject to*" below) and considering the potential outcomes of any future SREP processes, it cannot be excluded that the supervisory authority may require the Issuer to maintain higher capital adequacy standards compared to those currently applicable. For further information on capital adequacy requirements applicable to the Issuer and on the risk associated with, reference is made to "*Risks associated with capital adequacy*" below.

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Finally, it should be considered that the Assignment of the NPL Portfolio constitutes one of the assumptions of the Restructuring Plan and one of the pre-requirements under which the SREP has been conducted as per the communication dated 19 June 2017.

In addition, even if the Assignment of the NPL Portfolio and the derecognition thereof are realised in their entirety, it cannot be excluded that, in the future, a further deterioration of the credit quality of the Bank and/or the Group may occur, both due to factors out of the Issuer's control – such as the persistence of the negative macroeconomic environment – and as a consequence of actions of the competent authorities, possibly after investigations.

In particular, it should be considered that the persisting crisis situation of the credit markets, the deterioration of the capital markets conditions, the persistent phase of slowing down of the global economy observed over the past years as well as possible measures adopted by the authorities of single countries may further reduce the available income of families and the profitability of enterprises and/or have a further negative impact on the ability of the Group's customers to fulfil the obligations taken and determine, therefore, a significant worsening of the credit quality of the Issuer and/or the Group.

Furthermore, the macroeconomic scenario development and/or the performance of specific sectors (with specific reference to families and small and medium enterprises, representing the Group's main customers) may entail a further reduction, even significant, of the value of guarantees received from customers and/or the impossibility, on the side of customers, to supplement the guarantees provided as a result of a value reduction thereof, hence negatively impacting on the Bank's estimated results due to the deterioration of credit quality and the additional provisions to be created in light of this deterioration, with possible negative effects on the business and the economic, capital and/or financial condition of the Bank and/or the Group.

Risks associated with the Precautionary Recapitalisation intervention

Further to the failed completion of the transaction announced by the Issuer's board of directors on 29 July 2016 (the "**2016 Transaction**"), on 23 December 2016, BMPS sent the ECB an application for extraordinary and temporary support for access to the so called "Precautionary Recapitalisation", as provided for by article 32, subsection 4 of the BRRD. On 4 July 2017 the European Commission issued a positive decision on the compatibility of the intervention with the EU legislative framework on "State aid".

In light of the above, the MEF issued two ministerial decrees which were published in the Official Gazette of 28 July 2017, general series no. 175 (the "**Recapitalisation Decree**" and the "**Burden Sharing Decree**"), in order to provide for (a) under the Recapitalisation Decree, the Bank's capital increase for an amount of Euro 3,854,215,456.30 to service the subscription of 593,869,870 shares by the MEF executed on 3 August 2017 (the "**Capital Increase**"), and (b) under the Burden Sharing Decree, the application of burden sharing measures as per art. 22, subsections 2 and 4 of Legislative Decree No. 237 of 23 December 2016 ("**Decree 237**"), as well as the Bank's capital increase for an amount of Euro 4,472,909,844.60 with consequent issuance of 517,099,404 shares. Such shares have been granted on 1 August 2017 to the holders of Burden Sharing Notes (as defined below) (the "**Burden Sharing**" and, together with the Capital Increase, the "**Capital Enhancement**"). After the completion of the Burden Sharing and of the Capital Increase reserved for the MEF, the share capital of BMPS is equal to Euro 15,692,799,350.97 and is represented by 1,140,290,072 ordinary shares, of which 36,280,748 BMPS own shares held by the Group.

For more information on the 2016 Transaction, the Precautionary Recapitalisation and the Transaction in general, reference is made to "*Banca Monte dei Paschi di Siena S.P.A. – Major Events – Recent developments – 2016 – Outcomes of EBA's stress test and definition of the 2016 Transaction's features*".

Please find below the description of the main risks associated with the Transaction.

a) Risks associated with the Burden Sharing

One of the conditions for the access to Precautionary Recapitalisation is the compliance with the European regulation on "State aid" and, in particular, the adoption of burden-sharing measures, that is the Burden Sharing.

For the purposes of the application of the burden-sharing measures, Decree 237 – implementing the precautionary recapitalisation regulation in Italy – provided for the conversion of the following subordinated notes into newly issued shares (the "**Burden Sharing Shares**" or "**Shares**"), according to the percentage of the relevant nominal value specified below:

a) Issuance XS0122238115: 75 per cent. of the nominal value;

b) Issuance XS0121342827: 75 per cent. of the nominal value;

c) Issuance XS0131739236: 75 per cent. of the nominal value;

d) Issuance XS0180906439: 18 per cent. of the nominal value;

e) Issuance IT0004352586: 100 per cent. of the nominal value (the "**UT2 Notes**");

f) Issuance XS0236480322: 100 per cent. of the nominal value;

g) Issuance XS0238916620: 100 per cent. of the nominal value;

h) Issuance XS0391999801: 100 per cent. of the nominal value;

i) Issuance XS0415922730: 100 per cent. of the nominal value;

l) Issuance XS0503326083: 100 per cent. of the nominal value; and

m) Issuance XS0540544912: 100 per cent. of the nominal value

(the issuances from a) to m) above, together, the "**Burden Sharing Notes**").

The Burden Sharing Decree also imposed other operating procedures to implement the conversion providing that – under art. 23, paragraph 3 of Decree 237 – the Burden Sharing Notes shall be converted into Burden Sharing Shares at a unit price of Euro 8.65 and that – under art. 22, paragraph 4 of Decree 237 – the contractual or non-contractual clauses executed by the Issuer over the own notes or capital instruments and relating to the capital rights to be paid on the same, hindering or limiting their full computability in the Common Equity Tier 1, shall be ineffective.

Such last provision implies the inefficacy of some agreements and/or clauses of the agreements executed in the context of the FRESH 2008 structure (for more information about the agreements executed in connection with FRESH 2008, please refer to section "*Banca Monte dei Paschi di Siena S.P.A. – Major Events – Recent developments – 2008-2012*" of this Base Prospectus).

The Bank considers that the provisions of Decree 237 and of the Burden Sharing Decree were duly implemented. Moreover – considering that such provisions are implemented for the first time and relate to different legislations – it cannot be excluded that the holders of the Burden Sharing Notes will rely on different interpretations of the aforementioned measures and, according to such measures, they may decide to act before the competent venues also against the Bank in order to protect their alleged rights, arguing, for instance, that the Burden Sharing Decree was misinterpreted or that its provisions were not duly implemented by the Bank.

In such respect, it should be noted that at the beginning of September, a petition under art. 700 Italian Civil Procedure Code was lodged before the Court of Genoa by a holder of Burden Sharing Notes (for a nominal amount lower than Euro 50,000), whereby the Judge was asked, as a matter of urgency, to order to the Bank not to list the Burden Sharing Shares on the stock exchange and to fulfil the guarantees that – according to the plaintiff – the Bank would have issued in favour of the holders of Burden Sharing Notes, on the basis of the original structure of the issue.

On 17 October 2017, after the hearing for discussion held on 29 September 2017, the Judge dismissed the petition thereof. On the merit, the Judge deemed that the precautionary question was completely inadequate under the *periculum* profile, stating that – among others – the listing of the shares resulting from the conversion of the Burden Sharing Notes will not produce any damage – further to the hypothetical damages arising from the conversion – to the holder whose subordinated notes are converted in Burden Sharing Shares. As at the date of the Base Prospectus, no complaint has been raised.

For more information about this dispute, please refer to section "*Banca Monte dei Paschi di Siena S.P.A. – Major Events – Recent developments – Legal Proceedings – Disputes arising from the Burden Sharing*" of this *B*ase Prospectus.

On 5 October 2017, the Bank's board of directors resolved, amongst the others, that:

a) applying Decree 237 also to the FRESH 2008 transaction, revoking the resolution adopted on last 2 August thereon, which provided – on a theoretical basis and however subject to acquisition of the relevant authorizations from any competent authorities, for the possibility to execute a settlement agreement with the holders of FRESH 2008 securities in a form whose preliminary outline had been made available by the same;

b) informing Directorate General Competition, ECB and Bank of Italy about the adopted resolution;

c) sending a letter through which informing JP Morgan about the implementation of Decree 237 and consequent termination of both the usufruct agreement and the company swap agreement;

d) starting preliminary talks had to be started with the supervisory authorities on the relevant and consequent regulatory aspects. Indeed, although no specific duties of authorisation are provided for, the Bank will send a petition to the ECB, aimed at obtaining the authorisation for reclassifying the aforementioned amount from Additional Tier 1 to CET1.

On 20 October 2017, furthermore, the Bank sent two letters: i) one to JP Morgan in relation to the application of Decree 237, wherein the Issuer specified to deem terminated both the usufruct agreement and the company swap agreement, and ii) by the other letter the Bank communicates that, as at 30 June 2017 – as also shown in the interim financial report as at 30 June 2017 – a capital deficiency event as provided for in the 2008 FRESH securities regulation occurred (i.e. a reduction of the capital ratios below the minimum regulatory levels) since the Group's capital ratios were, on that date, lower than the coefficients provided for in article 92 of the CRR. Furthermore, discussions with the supervisory authority have been started with respect to the regulatory issues relating thereto.

In light of the above – taking into account the interpretation adopted by the Bank on the implementation of Decree 237, which has led to consider ineffective some agreements and/or clauses of FRESH 2008 – it cannot be excluded that the counterparts of the agreements underlying to the issuance FRESH 2008, as well as the same holders of FRESH 2008 securities may act against the Bank to challenge the applicability of the provisions of article 22, paragraph 4 of Decree 237 which has led the Issuer to deem the agreements and/or clauses null and void. In such a case, it cannot be excluded that such agreements and/or clauses remain valid (for more information on the FRESH 2008 framework, reference is made to "*Banca Monte dei Paschi di Siena S.P.A. – Major Events – Recent developments – 2008-2012*" of this Base Prospectus).

In the event that the FRESH 2008 framework remains valid and/or the article 22, paragraph 4 of the Decree 237 is deemed not applicable, the Bank may be forced to continue paying the remuneration in accordance with FRESH 2008 shares, in case that certain requirements are met (such as the existence of profits to be distributed and the payment of dividends related to the Bank's ordinary shares). It would follow that (i) from a prudential standpoint, FRESH 2008 transaction would not fail and it should continue being qualified as Additional Tier 1, instead of CET1, and (ii) also in the view of a possible aggregation, the Bank's dividends policy would be conditioned accordingly (for further information on the distribution of dividends, reference is made to "*Risks associated with the failed distribution of dividends*" below).

In the context of the Restructuring Plan, it should be further noted that the inefficacy of the agreements related to FRESH 2008 – as described above – has been assumed so that the Restructuring Plan, due to such assumption, provides for the requalification from Additional Tier 1 to CET1, for the purposes of the capital adequacy determination. Therefore, the failed cancellation of the FRESH 2008 framework and/or the failed application of article 22, paragraph 4 of the Decree 237 – following any legal actions started against the Bank – may involve, with respect to the prospective figures of the Restructuring Plan, the impossibility to implement the requalification aforementioned and, consequently, the CET1 Ratio would be lower of around 0.3 per cent. in 2021, with a Tier1 equal to Total Capital Ratio.

In this respect, the Bank has been informed by certain holders of the FRESH 2008 notes of the filing of a judicial document before the Court of Luxembourg as outlined in press releases dated 17 November 2017 relating to a lawsuit filed against various counterparties (including the Bank) claiming damages of Euro 1 billion.

As at the date of this Base Prospectus, the Bank received the official notification of such action which does not quantify any alleged damage and requests the Court to state that Decree 237 does not apply and that a conversion event of the instruments did not occur with respect to a capital deficiency event. With the assistance of its lawyers, the Bank is actually evaluating the line of defense which seems the more appropriate considering its position on the matter.

Despite the Bank adopting its position following discussions with the supervisory authorities on the implementation of Decree 237 and carrying out its own independent legal inspections together with its adviser, it cannot be excluded that the potential acceptance of the claim may entitle the bondholders to receive – subject to the occurrence of the conditions provided for by the conditions of the security – the payments of

interest under the FRESH 2008 notes, in addition to further damages actionable by the bondholders within the context of such lawsuit.

The potential unfavourable outcome of existing or further disputes started against the Bank in respect of the application or interpretation of Decree 237 and of the Burden Sharing Decree, may adversely affect the Issuer's and/or the Group's economic and financial situation (for instance, in relation to potential demand for damages' reimbursement or in terms of reputational damage). As at the date of the Base Prospectus, the Bank has not allocated any reserve in relation to such disputes' risk yet, since no specific actions have been started against the Bank that may represent a reason to proceed with such reserve.

b) Risks associated with voluntary public offering for exchange and settlement

In relation to the Precautionary Recapitalisation, Decree 237 provides that – within 120 days from the publication of the ministerial decrees – the Bank or a company of the Group may purchase – in the name and on behalf of the MEF – the new shares covered by a settlement agreement between the Bank (or a company of the Group) and the individuals who became shareholders following the Burden Sharing, provided that certain conditions are met at the same time.

In particular, such Offer provides that individuals entitled (meaning the holders of UT2 Notes having the characteristics reported under the section "*Banca Monte dei Paschi di Siena S.P.A. – Major Events – Recent developments – 2017*"), by adhering to the Offer, will receive – in place of the UT2 Shares – Senior Debt Securities (as defined under the section "*Banca Monte dei Paschi di Siena S.P.A. – Major Events – Recent developments – 2017 – Voluntary public offering for exchange and settlement*" of this Base Prospectus) with characteristics similar to the UT2 Notes under the terms and conditions specified in the relevant Information Notice.

The Bank, according to the information available to it upon the approval of the Restructuring Plan, estimated the offer's exchange-value equivalent at Euro 1,536 million, and such amount was considered as part of the Restructuring Plan's "State aid" and helped setting the maximum amount for any MEF intervention (for further information on the amount of the "State aid", reference is made to paragraph "*Banca Monte dei Paschi di Siena S.P.A – Major Events – Recent developments – 2017*" of this Base Prospectus).

In light of the above, it shall be deemed that the Offer may be launched if a maximum exchange-value (cap) is set. The provision of such cap involves that any applications for the acceptance of the Offer exceeding the cap of Euro 1,536 million cannot be accepted and the share allocation shall be necessarily applied. Indeed, since as mentioned above the maximum exchange value included into the "State aid" under the Restructuring Plan is equal to Euro 1,536 million, no different solutions from the share allocation have been considered.

It should be further considered that the allocation mechanism will be structured so as to allow pro rata allocation of the consideration for the offer, ensuring the compliance with the principal equal treatment of the recipients of the offer. However – by definition – allocation procedures are applied only if not all applications for Offer acceptance are accepted. As a consequence, those entitled who applied for the acceptance of the Offer may not be able to offer all of the UT2 Shares assigned to them during the conversion of the UT2 Notes.

Finally, on 30 October 2017, the MEF – for the purposes of purchasing the UT2 Shares – enacted the relevant ministerial decree. The tender period started at 8:30 a.m. on 31 October 2017 and has ended at 4:30 p.m. on 20 November 2017 (included), provided that it is not extended. The settlement date of the Offer will fall on 24 November 2017.

During the tender period (31 October 2017 – 20 November 2017) no. 198,521,533 UT2 Shares, equal to 83.520540 per cent. of the UT2 Shares to which the Offer relates (equal to a total of no. 237,691,869), have been validly tendered into the Offer.

As at the date of the Base Prospectus, on the basis of the Offer's final results, the MEF has purchased a number of UT2 Shares so as to hold a share capital of the Bank equal to 68.247 per cent..

It is understood that, also in the event that such allocation is applied, any waivers and obligations of the individuals who adhered to the Offer and to the transaction arisen by virtue of their acceptance of the same, would however relate to all UT2 Shares held by individuals who adhered to the offer, whether their application was accepted entirely or was subject to allocation. Such circumstance may make the acceptance less appealing by those entitled to the Offer. Consequently, the number of subjects adhering may be decreased or be void.

The potential unfavourable outcome of one or more disputes started against the Bank – in the event of failed or partial adhesion to the Offer, with respect to the execution manners of the Offer and the transaction – may adversely affect the Issuer's and/or the Group's economic and financial situation (for instance, in relation to potential demand for damages' reimbursement or in terms of reputational damage). As at the date of the Base Prospectus, the Bank has not allocated any reserve in relation to such disputes' risk yet, since no specific actions have been started against the Bank that may represent a reason to proceed with such reserve (it is underlined that, as at the date of the Burden Sharing Decree and prior to the conversion into UT2 Shares, the nominal amount of the UT2 Notes was around Euro 2 billion, which is in any case not indicative of the potential *petitum* arising from the legal disputes).

It cannot be further excluded that also the adherents to the Offer may start actions against the Issuer, challenging the settlement effect of the same Offer.

c) Risks associated with the Assignment of the NPL Portfolio

Risk associated with the failed derecognition of the NPL Portfolio

The derecognition of the NPL Portfolio constitutes one of the undertakings given by the Bank in the context of the Restructuring Plan approved by the European Commission. In particular, such Plan expressly provides for the Bank to carry out the assignment of the Mezzanine Notes (commitment 24). Hence, in the event of failed compliance with such commitment, the European authority may either undertake a formal investigation procedure or directly file a petition in front of the European Court of Justice for the purpose of obtaining the declaration of the non-fulfilment of the undertakings given by the Italian State. In the context of such procedures, the European Commission may issue an injunction direct to suspend or request the recovery of "State aid". For more information on the realisation of the Restructuring Plan and the relating risks, reference is made to "*Risks associated with the failed realisation of the Restructuring Plan*" above.

The Assignment of the NPL Portfolio will be realised through a securitisation transaction pursuant to Law no. 130 of 30 April 1999, as amended ("**Law 130**"), which envisages the following phases:

(1) ***by December 2017***, the transfer of the NPL Portfolio to the SPV and the issuance of the Notes, which at the time of issuance will be fully subscribed for by the Bank, MPS Capital Services and MPS Leasing & Factoring (together, the "**Assigning Banks**") with contextual assignment to the Atlante II Fund of 95 per cent. of Mezzanine Notes; and

(2) ***by June 2018***, the placement on the market of Senior A1 Notes and of Senior A2 (and possibly Senior A1b Notes, if issued) subject to the prior assignment of the investment grade rating to Senior A1 Notes and the obtaining of the GACS on Senior A1 Notes. Contextually, it is provided the assignment to the Atlante II Fund of 95 per cent. of Junior Notes, with consequent derecognition of the NPL Portfolio.

The derecognition of the NPL Portfolio should therefore be realised within the first semester of 2018, further to the assignment to the Atlante II Fund of 95 per cent. of Junior Notes. In this respect investors should consider that, should the Issuer not be able – for whatever reasons even out of its control – to complete the securitisation according to the proposed scheme, or should Quaestio not fulfil the undertaking given or should the conditions to which such undertakings are subject not be satisfied the derecognition of the NPL Portfolio may not take place, with negative consequences on the undertakings given in the context of the Restructuring Plan.

It should be further noted that the derecognition of the NPL Portfolio constitutes one of the pre-requirements on the basis of which the SREP, as per the ECB communication of 19 June 2017, was conducted. In particular, in the context of the SREP Decision, the ECB noted how the Issuer's credit quality is highly weak, with an Impaired Loans percentage equal to around one third of the Bank's total exposures. In this context, the derecognition of the NPL Portfolio constitutes a key step to allow the Issuer to reduce its Impaired Loans exposure and, accordingly, improve the overall credit quality. Should the realisation of the derecognition of the NPL Portfolio not be possible for the above stated reasons or due to the occurrence of other events even out of the Issuer's control, it cannot be excluded that the ECB may ask the Issuer to adopt extraordinary measures or oblige the Group to comply with additional requirements, including capital buffers, with possible negative effects on the economic, capital and financial condition of the Group.

Finally, it should be considered that the Bank, in order to proceed with the prudential derecognition, shall obtain from the ECB for a specific authorization for the *significant risk transfer*. In particular, when the securitisation's contracts will be finalised (which will not differ significantly from the general conditions as set forth in the binding agreement entered into with Quaestio on 23 June 2017), the Bank will send a specific preliminary application to the ECB. For more information on the failed authorization to the *significant risk transfer* and, consequently, to the failed derecognition of the NPL Portfolio, as well as on the risks associated with, reference is made to "*Risks associated with the failed realisation of the Restructuring Plan*" above.

For more information on (i) the SREP Decision and its content, reference is made to "*Banca Monte dei Paschi di Siena S.P.A. – Major Events – Recent developments – 2017*" – *SREP annual process*" and (ii) the risks associated with the resolution mechanisms applicable to banks, reference is made to "*Risks associated with the investment in the Issuer shares and to the recovery and resolution mechanisms of failing enterprises*" below.

Risk associated with the waiver on LGD models

For the purposes of the calculation of risk weighted assets ("**RWAs**") the Group uses, as it is practice for the banking sector, models, among which the LGD. Such models are usually subject to periodic review and recalibration, in light of the evolution of the applicable regime as well as of the Issuer's circumstances. In this respect it shall be specified that, in general, the review process for such models and/or recalibration may lead to a different RWAs quantification and, accordingly, impact on the capital condition of the Bank and/or the Group.

With specific reference to the LGD, on 29 July 2016 – in the wider context of the market transaction announced by the Bank's board of directors - the ECB authorised the Bank to fully exclude the impacts on the LGD models deriving from the derecognition of a portion of the Doubtful Loan portfolio upon condition that the announced transaction would be completed in all its components.

For the purpose of the preparation and approval of the Restructuring Plan, then approved by the European Commission on 4 July 2017, the Issuer estimated an RWAs evolution on the key assumption of the confirmation of the waiver on LGD models, i.e. on the possibility to exclude, from the set used for the purpose of determining the LGD, the credit positions being transferred as part of the Assignment of the NPL Portfolio. The underlying reasons for the waiver are represented by the exceptional nature of the assignment which, accordingly, may not be considered representative of the Group's recovery process and level.

It should be noted that the characteristics of the portfolio object of the waiver's demand are entirely the same of those of the loans portfolio upon which, on the past 29 July 2016 – in the broader context of the market transaction announced by the Bank's board of directors – the ECB authorised the Bank to exclude the impacts on the LGD models arising from the derecognition of part of the Doubtful Loans portfolio, provided that the announced transaction was finalised in all its components. As communicated to the "Joint Supervisory Team" (hereinafter the "**Joint Supervisory Team**" or "**JST**") of the ECB on 7 July 2017, should the waiver on LGD models not be confirmed by the ECB, the inclusion of the items the subject matter of assignment within the estimated loss rate (with final recovery from the assignment of around 21 per cent. of the GBV outstanding as at 31 December 2016), would lead to a variation of the parameters in the LGD models currently used for the estimate of capital requirements which may turn into an increased RWA by around Euro 15.4 billion and increased shortfall by Euro 1.9 billion, with an overall impact which may affect the achievement of the SREP targets required by the ECB. In particular, while the LGD's rate of the Doubtful Loans may increase by around 19.6 basis points, the performing loans' rate may increase by 10.8 basis points. However, it should be deemed that the confirmation of the waiver upon LGD models is subject to the approval by the ECB which will be asked together with the authorization's request for the *significative risk transfer* (STF), needed for the purpose of the NPL Portfolio's prudential derecognition (for more information, reference is made to the paragraph "*Risks associated with the failed realisation of the Restructuring Plan*" above). In this context, it should be specified that the waiver's confirmation on LGD models does not represent a condition for the NPL Portfolio derecognition. Should the ECB not confirm the waiver on LGD models, with the abovementioned modalities, the Bank should recalibrate such models in order to take into account the Assignment of the NPL Portfolio with an overall impact which may affect the achievement of SREP targets required by the ECB with consequent negative impacts on the economic, capital and financial condition of the Group.

For more information on the capital condition of the Bank as well as on the associated risks, reference is made to "*Risks associated with capital adequacy*" below.

Risk deriving from the Issuer's retention of an exposure on the NPL Portfolio

As highlighted above, the securitisation provides for the ABS Notes (as defined below) to be fully subscribed for, at the time of issuance, by the Assigning Banks and, specifically:

- Senior A1 Notes for Euro 3,256.3 million (the "**Senior A1 Notes**");
- Senior A2 Notes for Euro 500 million (the "**Senior A2 Notes**");
- Mezzanine Notes for Euro 1,028.5 million (the "**Mezzanine Notes**"); and
- Junior Notes for Euro 685.7 million (the "**Junior Notes**").

Contemporaneously with their subscription, 95 per cent. of Mezzanine Notes will be assigned to the Atlante II Fund, by virtue of the agreement entered into on 27 June 2017 between the Bank and Quaestio on behalf of the Atlante II Fund (the "**Quaestio Agreement**").

Senior A1 Notes (and possibly also Senior A2 Notes and A1b Notes, where issued) should instead be placed on the market with institutional investors by June 2018, subject to the prior assignment of an investment grade rating by at least two rating agencies and the granting of the benefit of the GACS on Senior A1 Notes. Consequently, the assignment to the Atlante II Fund of 95 per cent. of Junior Notes and the consequent derecognition of the NPL Portfolio is provided for.

It is possible that, after the issue date and as part of the procedure for the granting of the GACS on Senior A1 Notes, in the event that it is not possible to obtain an investment grade rating in respect of all Senior A1 Notes, the nominal amount of such notes shall be accordingly reduced and Senior A1b Notes will be issued, for an amount corresponding to such reduction, and be subscribed for by the Assigning Banks.

Finally, for the entire term of the securitisation, BMPS should in any case retain a net economic interest equal to 5 per cent. of the nominal amount of each class of ABS Notes. The subscription by BMPS of a minimum percentage of 5 per cent. of each class of notes is linked to the obligation on the assignor to retain, on an on-going basis, a net economic interest in the transaction not lower than 5 per cent. (the so called "retention rule"), as provided for by article 405 of the CRR and the other regulatory provisions on the matter (art. 51 of Delegated Regulation (EU) no. 231/2013 and art. 254 of Delegated Regulation (EU) 2015/35); among the various options, BMPS chose to fulfil this obligation, also on behalf of the other Assigning Banks, through the subscription of 5 per cent. of the nominal value of each class of notes (the so called "vertical slice", pursuant to article 405, first subsection, letter a), of the CRR).

As additional obligation provided for by the regulatory provisions, article 409 of the CRR imposes on assignors to assure that "*prospective investors have readily available access to all materially relevant data on the credit quality and performance of the individual underlying exposures, cash flows and collateral supporting a securitisation exposure as well as such information that is necessary to conduct comprehensive and well informed stress tests on the cash flows and collateral values supporting the underlying exposures*". The fulfilment of such obligation pre-requires that BMPS maintains full knowledge of the data and information relating to securitised assets and that third party servicers in charge of managing the NPL Portfolio fulfil the contractually given undertaking to forward such data and information to the Bank.

In light of the above, the Issuer, although realising, through the securitisation the full derecognition of the NPL Portfolio, will retain certain exposures to the securitisation, and accordingly to the performance of collections and recoveries of the securitised portfolio and will remain exposed to the relating risks, in terms of actual yield and recovery possibility of the investment effected, in case the flows deriving from the securitised assets are lower than those expected throughout the life of the transaction, with consequent negative effects on the economic, capital and financial condition of the Bank and the Group.

The notes issued within the context of the securitisation (the "**ABS Notes**") are in fact asset backed securities ("**ABS**") issued and governed pursuant to Law 130, with different subordination degree (notes with lower subordination degree are paid with priority compared to the others; Junior Notes have the highest subordination degree) and with limited recourse, meaning that the payment of interests, the redemption of

principal and every other amount due under the notes is linked to the collections and recoveries realised on the securitised portfolio (the "**NPL Portfolio**"), which constitutes segregated assets for the benefit of the noteholders and the other creditors of the SPV. They are complex financial instruments destined for institutional investors, the application for listing of which on a regulated market (or other appropriate market) is expected only after the granting of an investment grade rating and of the GACS on Senior A1 Notes.

The value of each class of ABS Notes held, on a temporary or permanent basis, by the Assigning Banks will depend upon not only the value of and return on the NPL Portfolio, but also the value, costs, terms and conditions of any other amount the payment of which is, due *pari passu* or with priority, compared to each such class of ABS Notes. Some terms and conditions of the ABS Notes are not yet fully known and they will depend upon various factors, among which: the amount of *senior* notes for which an investment grade rating could be obtained and eligible to obtain the benefit of the GACS, the availability and cost of the GACS guarantee, and the overall cost arising from the placement on the market of such notes (whether or not guaranteed by the GACS).

As at the date of this Base Prospectus, there is no certainty on the actual amount of Senior A1 for which it will be possible to obtain a rating investment grade and, subsequent to the granting of the related rating, the GACS, as well as on the actual possibility to place such Notes on the market. Also with respect to Senior A2 Notes and, if issued, Senior A1b, there are no certainties on the rating and on the possibility of placement on the market. In certain unfavourable scenarios, the value assigned to the ABS Notes held by the Bank, as at the issue date or at any subsequent time, may be significantly lower than par and, in theory, even zero and this may have an impact also on the value of assets, financial conditions, economic and capital results and cash flows of the Bank, its subsidiaries and/or the Group. For this purposes, it should be also considered that the assignment of such Senior A2 Notes shall be finalised by 30 June 2018 in accordance with the commitments given by the Italian State to the European Commission.

In the event of failed attainment of the State guarantee, in any case the Bank would subscribe the Senior A1 Notes. The maintenance of such exposure will not obstruct the derecognition of NPL Portfolio, but it will probably entail the exceeding of regulatory limits provided for Large Exposures and the consequent need to place at least part of such Notes (about 20 per cent.).

For the sake of completeness, it has to be noted that 5 per cent. of Senior Notes which will be held by the Bank will not benefit from the GACS.

Risks associated with capital adequacy

The Capital Enhancement includes, *inter alia*, the subscription, by the MEF, of the reserved Capital Increase for Euro 3.9 billion. Such amount, added to the Burden Sharing, allowed to realise an overall Capital Enhancement equal to Euro 8.2 billion.

The Capital Increase reserved for the MEF, realised in compliance with the provisions of Decree 237 and the Recapitalisation Decree as well as in accordance with that illustrated to the European Commission during the approval of the Restructuring Plan, allowed enhancement of the Bank's asset condition and, accordingly, of the main capital adequacy ratios applicable to the Bank and the Group.

In this respect, it should be preliminarily considered that, in general, the capital adequacy evaluation under a regulatory perspective is based on the constant monitoring of own funds, risk weighted assets ("**RWA**") as well as on the comparison with the minimum regulatory requirements, including the additional excess requirements to be met over time as communicated to the Group after the SREP, and the additional capital buffers provided for by the applicable legislative provisions. The optimisation of RWAs and assets is pursued through the contextual monitoring of the dynamic of volumes and evolution of the relating risk metrics.

Furthermore, it has to be noted that the regime prescribed by the CRR/CRD IV (both as defined below) provides for the full application of rules in 2019 (2022 for the phase-out of certain equity instruments) while in the period between the date of this Base Prospectus and 2019 the new rules will be applied on a progressive basis. Even for subordinated instruments failing to comply with the requirements provided for by the new legislative provisions, specific transitional rules are provided for, aimed at the scaled exclusion from own funds (in a period of eight years) of no longer computable instruments. Prudential ratios set out in this Base Prospectus take into account the material changes, as provided for by the applicable transitional provisions.

a) Capital ratios of the Issuer and the Group

The following table shows the capital indicators and supervisory ratios of the Issuer, on a consolidated basis, as at 30 September 2017 with the respective comparative data as at 31 December 2016, 31 December 2015 and 31 December 2014.

	As at		
(in million Euros; per cent.)	**30 September 2017**	**31 December 2016**	**31 December 2015**
Common Equity Tier 1	9,599	5,353	8,503
Tier 1	9,599	5,353	9,101
Tier 2	129	1,464	2,196
Total Capital	9,729	6,817	11,298
Risk Weighted Assets (RWA)	63,290	65,522	70,828
Common Equity Tier 1 Ratio	15.17%	8.17%	12.01%
Tier 1 Ratio	15.17%	8.17%	12.85%
Total Capital Ratio	15.37%	10.40%	15.95%
Risk Weighted Assets (RWA) / Total assets	43.62%	42.80%	41.91%

Compared to 31 December 2016, CET1 records a sharp increase due to the capital increase implemented on 27 July 2017 pursuant to the issue by the MEF of the decrees "*Interventi di rafforzamento patrimoniale della Banca Monte dei Paschi di Siena, ai sensi dell'art. 18, comma 2, del decreto-legge 23 dicembre 2016, n. 237, convertito con modificazioni, dalla legge 17 febbraio 2017, n. 15*" and "*Interventi di rafforzamento patrimoniale della Banca Monte dei Paschi di Siena, ai sensi dell'art. 18, comma 3, del decreto-legge 23 dicembre 2016, n. 237, convertito con modificazioni, dalla legge 17 febbraio 2017, n. 15*", published in the Official Gazette no. 175 on 28 July 2017.

Risk Weighted Assets decreased by 3.4 per cent. (Euro 2,232 million) compared to 31 December 2016 as a direct consequence of the overall reduction of the exposures.

The Common Equity Tier 1 Ratio on transitional basis for the Group, equal to 15.17 per cent. as at 30 September 2017 and 8.17 per cent. as at 31 December 2016, would, respectively, correspond to around 14.46 per cent. and around 6.49 per cent. on a fully phased basis.

It has to be noted that the figure relating to the Group's Common Equity Tier 1 Ratio (fully phased) as at 30 September 2017 and 31 December 2016 represents a processed figure, provided for information purposes only to show the impact that Basel III would have should a transitional period for the gradual introduction of the new regulatory measures not be provided for, and it does not constitute a guarantee of the capitalisation levels which will be standing at the end of the transitional period.

Capital measures have been calculated by applying the rules introduced by the CRD IV and the CRR, supplemented with the national discretions of the Bank of Italy, as set out in the supervisory rules (Part II "Application in Italy of the CRR")[1].

For the purpose of calculating risk weighted assets (RWA), the Group was authorised in June 2008 to use advanced internal rating systems (AIRB – *Advanced Internal Rating Based*) for the determination of capital requirements in respect of credit risk, with reference to retail and corporate portfolios, and AMA (*Advanced*

[1] The main elements of the national discretions issued by the Bank of Italy relating to the transitional regime for the period 2014-2019 may be so summarised: (i) the level of combined capital requirement; (ii) the retention of the prudential filter over unrealised profits and losses relating to exposures to EU central administrations classified in the AFS portfolio (as define below), originally provided for until the amendment of current IAS39. In January 2014 the Group exercised the option to exclude from Common Equity Tier 1 unrealised profits and losses relating to exposures to EU central administrations classified in the AFS portfolio. After the entering into force of Regulation (EU) no. 2016/445 of the European Central Bank on the exercise of options and discretions provided for by the EU regime and Regulation (EU) 2016/2067 of the European Commission with which international accounting standard IFRS 9 has been homologated, unrealised profits and losses relating to exposures to EU central administrations, starting from 1 October 2016, are treated likewise to those deriving from AFS exposures to the other types of counterparties, i.e. with the same transitional regime, save for the sterilisation of the share not computed in Common Equity Tier 1 for which the pre-existing national regime continues to be applicable; (iii) the provision, upon the satisfaction of certain requirements, for an alternative treatment than the deduction (weighting at 370 per cent.) for significant insurance interests not exceeding 15 per cent. of the investee's share capital; (iv) the scaled grandfathering, before 31 December 2021, of equity instruments no longer computable in the supervisory capital pursuant to the CRR; and (v) as regards the percentages applicable to the deduction from Tier 1 capital instruments of significant investments in entities of the financial industry and of deferred tax assets depending upon future profitability according to art. 19 of "Regulation (EU) 2016/445 of the European Central Bank of 14 March 2016 on the exercise of options and discretions provided for by the EU regime" in force since 1 October 2016. Such article, par. 4 excludes the application of this specific provision to credit institutions which, as at the date of entry into force of this regulation, are subject to restructuring plans approved by the Commission, as is BMPS.

Measurement Approach) for operational risks. The use of such internal systems has been validated by the Bank of Italy. For the remaining portfolios and for market risk, risk weighted assets (RWA) are calculated according to standardised methodology.

In relation to the main interventions realised in past years, a review activity has been conducted on the corporate and retail internal models including in historical development series in the most recent years, more representative of the current economic recessionary situation.

In 2016 the BMPS Group, in line with the set of regulatory provisions (specifically regulation (EU) CRR no. 575/2013 art. 179) based on which "*institutions review their estimates every time new information should emerge and in any case at least on a yearly basis*", continued its update and review activity of its internal rating system, also for the purpose of taking in the events which characterised 2015 and specifically, as concerns PD models, proceeded with the full recalibration of all models through the update of anchor points ("**AP**") and the transposal of 2015 default rates ("**DR**").

In relation to the calculation of RWAs, the BMPS Group, similarly to the other banking groups subject to SSM, is subject to the internal models review activity, called "Targeted Review of Internal Models" ("**TRIM**"), launched by the supervisory body in the course of 2016 and aimed at harmonising EU banking groups' internal models.

The internal models review (TRIM) by the supervisory body should be completed in 2018 and may have impacts, also significant to RWAs, which, as at the date of this Base Prospectus, cannot be estimated. Finally, it has to be considered that, for the sake of completeness, the Issuer shows a leverage ratio calculated as the ratio between tier 1 capital and total non-weighted assets, including among them also off-balance sheet assets represented by given guarantees and commitments, calculated by applying adequate conversion ratios depending on such assets risk level - equal, as at 30 September 2017, to 5.53 per cent. (considering a phased-in Tier 1 Capital) and 5.35 per cent. (considering a fully loaded Tier 1 Capital). In this respect, it should be noted that such ratio's minimum level should be set by the authorities effective as of 1 January 2018 at the end of an observation period which will end on 31 December 2017. For such observation period the Basel Committee had indicated a minimum 3 per cent. ratio.

For further information on the risks associated with the evolution of the banking sector's regulation reference is made to "*Risks associated with the evolution of the banking and financial sector regulation and of the additional provisions the Group is subject to*" below.

b) Capital adequacy requirements applicable to the Issuer

On 19 June 2017, the ECB required on the Bank to comply, starting from 1 January 2018, with a level of Total SREP Capital Requirement ("**TSCR**") on a consolidated basis equal to 11 per cent., including:

- the minimum Total Capital Ratio requirement of 8 per cent. in line with article 92, first subsection of the CRR;
- an additional 3 per cent. requirement (*SREP "add-on"*), in line with article 16, second subsection, lett. (a) of the SSM framework regulation (ECB/2014/17, hereinafter the "**SSM Regulation**", which shall be fully composed of Common Equity Tier 1.

The Issuer is further subject to an overall capital requirement ("**OCR**"), including, besides the TSCR, also the combined capital requirement.

Furthermore, the ECB notified to the Issuer the expectation for the Group to comply with an additional 1.5 per cent. threshold (the so called "Pillar 2 capital guidance") to be fully satisfied with Common Equity Tier 1, in addition to (i) the minimum common equity tier 1 requirement of 4.5 per cent. (Pillar I), (ii) the additional 3 per cent. requirement (SREP "add-on" or Pillar II requirement) and (iii) the combined capital requirement.

In relation to the above, it should be noted that failure to comply with such capital guidance would not be equal to a failure to comply with capital requirements; however, in the event of capital dropping below the level including the "Pillar 2 capital guidance", the supervisory authority, which shall be promptly informed in details by the Issuer on the reasons for the failed compliance with the aforementioned level, will take into consideration, on a case by case basis, possible appropriate and proportional measures (including the possibility to put in place a plan aimed at restoring compliance with the capital requirements – inclusive of capital enhancement requests – in accordance with article 16, paragraph 2 of the SSM Regulation).

Please finally note that the supervisory review and evaluation process ("**SREP**") is conducted by the ECB at least on a yearly basis (without prejudice in any case to the supervisory powers and prerogatives typical of the latter which can be exercised on an on-going basis during the course of the year) and, accordingly, it cannot be excluded that, following future SREPs, the supervisory authority may prescribe to the Issuer, *inter alia*, the maintenance of capital adequacy standards higher than the ones currently applicable. Furthermore, the ECB, following future SREPs, may impose on the Issuer specific corrective measures, among which, *inter alia*, (i) requesting to hold capital resources to an extent higher than the regulatory level notified for credit, counterparty, market and operational risks, (ii) interventions aimed at enhancing systems, procedures and processes referring to risk management, control mechanisms and capital adequacy evaluation, (iii) imposing limits on the distribution of profits or other asset items, as well as, in relation to financial instruments eligible as own funds, the prohibition to pay interests, and (iv) prohibitions to carry out certain transactions, also of corporate nature, for the purpose of limiting the level of risks.

For more information on the SREP Decision reference is made to section "*Banca Monte dei Paschi di Siena S.P.A. – Major Events – Recent developments – 2017 – SREP annual process*".

Banks which do not satisfy the combined capital requirement, or even just the capital conservation buffer, are subject to the capital conservation measures provided for by Circular no. 285 (as defined below). The capital conservation measures impose restrictions on, *inter alia*, distributions of dividends, with greater restrictions being imposed as the breach becomes more significant. It further provides for banks to adopt a capital conservation plan which shall set out the measures (among which further capital increases cannot be excluded) the Bank intends to adopt to restore, within an appropriate timeframe, the necessary capital level to maintain capital reserves in line with the extent required. Should, even after the realisation of the Capital Increase, these conditions be satisfied (i.e., failed compliance with the combined capital requirement, or even just the capital conservation buffer), and/or changes to the methodologies and parameters to estimate Impaired Loans adjustments or amendments to the internal models to calculate RWAs occur, the need may then arise for further capital enhancements of the Issuer, such as that investors may be called to participate in further capital increase transactions.

Investors should consider that supervisory authorities may impose further requirements and/or parameters for the purpose of calculating capital adequacy requirements or may adopt interpretation approaches of the legislation governing prudential funds requirements unfavourable to the Issuer, with consequent inability of the Bank to comply with the requirements imposed and with possible negative effects even material on the business and capital, economic and financial conditions of the Issuer and the Group, which may give rise to the need to adopt further capital enhancement measures.

Furthermore, the evaluation of the capital adequacy level is affected by various variables, among which the need to deal with the impacts deriving from the new and more demanding requirements under a regulatory standpoint announced by the EU regulator (for more information in this respect reference is made to "*Risks associated with the evolution of the banking and financial sector regulation and of the additional provisions the Group is subject to*"), the need to support functional plans to a more swift reduction of the stock of Impaired Loans – even in addition to the Assignment of the NPL Portfolio as described in item c) of the above paragraph – and/or the assessment of market scenarios which promise to be particularly challenging and which will require the availability of capital adequate resources to support the level of assets and investments of the Group. It should also be noted that the current level of capital ratios has been achieved through the Precautionary Recapitalisation, which has an exceptional nature.

c) Risks associated with capital adequacy and SREPs of foreign branches

The BMPS Group is also active in France and Belgium with the two subsidiaries Banca Monte Paschi Belgio S.A. and Monte Paschi Banque S.A. and, accordingly, the Group results are affected also by the results and operations of the companies belonging to the Group. Any deterioration of the profitability conditions and variables affecting the capital adequacy level of the two foreign branches, among which the request of new and more demanding requirements after the SREP process (for more information on the SREP, reference is made to the section "*Banca Monte dei Paschi di Siena S.p.A. – Major Events – Recent Developments – 2017 – SREP annual process*" of this Base Prospectus) and more in general linked to the requests of the competent authorities may require the Group to support functional plans for the restoration of capital resources and to support the level of assets and investments of subsidiaries and have negative effects also on the economic, capital and/or financial condition of the Group, also deriving from needs for capital increases following any realisation of operating losses (as occurred in the operating years 2016 and 2017 to the subsidiary Monte Paschi Banque for an amount equal to, respectively, Euro 15 million and Euro 40 million).

With respect to the relevance of the two foreign branches within the Group, it is highlighted that, as at 30 September 2017, the contribution to the Group RWA of Banca Monte Paschi Belgio S.A. and Monte Paschi Banque S.A. is equal to, respectively, 1.4 per cent. and 1.3 per cent..

With specific reference to the outcomes of the SREP process on each of the two foreign branches, the ECB requires:

- on the capital requirements side, in relation to the total capital ratio to maintain on an individual basis: (i) a level of Total SREP Capital Requirement equal to 10.25 per cent. of which 8 per cent. as minimum own funds requirement, and 2.25 per cent. as "Pillar 2" capital requirement fully comprised of CET1, and (ii) an overall capital requirement including, in addition to the TSCR, the combined capital requirement pursuant to article 128 of CRD IV; and
- the SREP Decision introduces, as required to the Bank also on consolidated basis, the capital guidance (the Pillar 2 capital guidance) equal to 1 per cent., as a requirement to be entirely satisfied with Common Equity Tier 1, in addition to the minimum regulatory requirement OCR in terms of CET1 and not in addition to OCR of Tier 1 and total capital minimum regulatory requirements (in respect of which, therefore, the requirements are unchanged as compared to the OCR requirements). It should be noted that failing to comply with such capital guidance is not equal to the failed compliance with capital requirements.

For more information on the SREP, reference is made to the section "*Banca Monte dei Paschi di Siena S.P.A. – Major Events – Recent developments – 2017 – SREP annual process*" of this Base Prospectus.

In relation to weakness profiles/improvement areas identified in the context of the SPREP, subsidiaries are defining the actions aimed at mitigating the weakness profiles identified by the ECB, in agreement with the Issuer.

Although subsidiaries are engaged in the finalisation of the mitigation actions of weakness areas, it cannot however be excluded that the same would prove to be not entirely adequate and, accordingly, it cannot be excluded that, also after future SREPs, the supervisory authority may prescribe to foreign branches banks the maintenance of capital adequacy standards higher than currently applicable ones and prescribe to such subsidiaries additional corrective measures. In such cases, it cannot be excluded that the Group may find itself, also in light of external factors and unforeseeable events outside its control, having to resort to measures aimed at restoring adequate levels of such ratios also for foreign branches.

Also in light of the above, it is possible that the Issuer may have to recognise a reduction, even significant, of its capital ratios, compared to the current situation. In such cases it cannot be excluded that the Group may find itself, also in light of external factors and unforeseeable events outside its control, in need to resort to adequate measures aimed at restoring adequate levels of such ratios.

Finally, it is specified that the assignment of foreign branches (meaning Banca Monte dei Paschi Belgio S.A. and Monte dei Paschi Banque S.A.) constitutes also one of the Restructuring Plan's commitments and, therefore, in the event of failed realisation of such assignment, the Issuer will have to adopt alternative measures, such as severely restricting the two banks' business to that closely aimed at deleveraging commitments, excluding the development of new activities and the entry into new markets, with consequent negative effects on the economic, capital and/or financial condition, also due to the significant restructuring costs and any reduction in the deposit collection. For more information on risks associated with the failed compliance with the Restructuring Plan's commitments, reference is made to "*Risks associated with the failed realisation of the Restructuring Plan*".

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Investors should consider that it cannot be excluded that in the future the Issuer may find itself, also in light of external factors and unforeseeable events outside its control and/or after further requests by the supervisory authority, having to resort to capital enhancement interventions, nor can it be excluded that the Issuer or the Group may not be able to achieve in the prescribed times and/or maintain (both at individual and consolidated level) the minimum capital requirements provided for by the legislation in force from time to time or established from time to time by the supervisory authority, with also possible material negative effects on the business and capital, economic and financial condition of the Issuer and/or the Group.

In this case, it cannot be excluded that the Issuer and/or the Group may be subject to extraordinary actions and/or measures by competent authorities, which may include, *inter alia*, the application of the resolution tools as per Decree 180, implementing the BRRD in Italy.

Risks associated with the investigations of supervisory authorities

The Issuer, to the extent it exercises the banking activity and provides investment services, is subject to complex regulation and to the specific supervision of the ECB, the Bank of Italy and CONSOB, each for the aspects of competence.

Starting from 4 November 2014, the Single Supervisory Mechanism ("**SSM**") was launched, which comprises the ECB and the national competent authorities of the participating Member States, among which the Bank of Italy. The SSM is in charge of the prudential supervision of all "significant" credit institutions in the participating Member States. As of this date, accordingly, BMPS being a "significant" bank, it is subject to the direct supervision of the ECB, which exercises its powers in close cooperation with the national supervisory authorities (in Italy, the Bank of Italy, which in any case retained some supervisory powers towards the Issuer, in accordance with the provisions of the Legislative Decree no. 385/1993 (the "**Italian Banking Act**").

In exercising supervisory powers the ECB and the Bank of Italy submit the Issuer, on a periodic basis, to various investigation and/or verification activities, both ordinary and extraordinary, for the purpose of fulfilling prudential supervision duties. With specific regard to the verification activities, reference is made to those with systemic investigation perimeter ("*Thematic Review*") or those linked to the management of internal risk models for the purpose of calculating capital requirements. The aforementioned investigation and/or verification activities feed the annual prudential review and evaluation process (SREP), the purpose of which is to ascertain that the credit institution has adequate capital and organisational control measures compared to the risks taken, assuring the overall balance of management. Specifically, the SREP process is based on the following four pillars: (i) assessment of feasibility and sustainability of the business model; (ii) assessment of the adequacy of governance and risk management; (iii) assessment of capital risks; and (iv) assessment of liquidity risks. At the end of the annual SREP process, the supervisory authority expresses a decision ("SREP Decision") with which quantitative capital and/or liquidity requirements are notified together with any other possible recommendation on organisational and controls matters that the credit institution shall comply with, in the set times and manners.

Subsequent to the exercise of the supervisory powers, the ECB, the Bank of Italy, the *Commisione Nazionale per le Società e la Borsa* ("**CONSOB**") and the other supervisory authorities may request organisational and controls enhancement interventions aimed at curing any possible deficiencies found, with possible negative effects on the economic, capital and/or financial condition the Group. The extent of such possible deficiencies may furthermore determine the initiation of sanctioning proceedings against the company's representatives and/or the relating Group companies, with possible negative effects on the economic, capital and/or financial condition the Group.

a) Supervisory activities by the ECB and the Bank of Italy

SREP Decision received by the Issuer on 19 June 2017

By letter sent on 19 June 2017 the ECB informed BMPS of the SREP Decision, with which it notified the prudential requirements the Bank and its subsidiaries shall satisfy along with other specific requests. The SREP has been conducted with reference date as at 31 December 2016, also taking account of the information received after such date among which, specifically, the draft Restructuring Plan submitted by the Bank to the European Commission.

On the capital requirements side, in relation to Total Capital, the following were required to be maintained on a consolidated basis as of 1 January 2018: (i) a level of Total SREP Capital Requirement ("**TSCR**") equal to 11 per cent. (of which 8 per cent. as minimum own funds requirement pursuant to article 92 of the CRR and 3 per cent. as Pillar 2 capital requirement fully composed of CET1); and (ii) an overall capital requirement (OCR) including, in addition to the TSCR, the combined capital requirement pursuant to article 128 of CRD IV.

As a consequence, BMPS shall comply with the following requirements on a consolidated basis starting from 1 January 2018:

- 9.44 per cent. CET1 Ratio on a transitional basis
- 12.94 per cent. Total Capital Ratio on a transitional basis,

including, in addition to P2R, 1.875 per cent. in terms of capital conservation buffer and 0.06 per cent. in terms of O-SII buffer (Other Systemically Important Institution Buffer). The capital conservation buffer and

the O-SII buffer will be at full steam respectively in 2019 with 2.5 per cent. and 2021 with 0.25 per cent. (the latter on a transitional basis will have a 0.13 per cent. coefficient in 2019 and a 0.19 per cent. coefficient in 2020).

The SREP Decision introduces the capital guidance (the so called "Pillar 2 capital guidance") equal to 1.5 per cent., as a request to be fully satisfied with Common Equity Tier 1, in addition to the minimum CET1 regulatory requirement, to the additional Pillar 2 requirements and the combined capital requirement. It should be considered that failing to comply with such capital guidance does not equal failing to comply with capital requirements (for more information on capital adequacy requirements, reference is made to "*Risks associated with capital adequacy*" above).

In addition to the abovementioned quantitative requirements, the SREP identifies qualitative measures in the matter of management of Impaired Loans and distribution of dividends. In relation to Impaired Loans, the Restructuring Plan incorporates the requests included in the SREP Decision and the findings of the ECB inspection closed in May 2017 (described in paragraph b) "*Investigations of the ECB and the Bank of Italy*" below). In fact, with almost the total disposal of the NPL Portfolio (for a GBV of around Euro 26 billion as at 31 December 2016) and with a specific assignment/reduction programme of the Unlikely to Pay and Doubtful Loan portfolio, the economic effects of which are included in the Restructuring Plan, the Issuer expects to achieve a significant reduction of the impact of gross Impaired Loans over total loans (NPE ratio). The ECB asked the Issuer to provide, on a consolidated and quarterly basis, additional periodic information on Impaired Loans according to the standard provided by the supervisory authority. The first submission of the additional information set has been requested for September 2017.

Upon completion of the review process, the ECB highlighted some weakness profiles/focus areas mainly concerning: (i) the business model, with specific reference to the persistence of the Bank's low profitability and the insufficient capacity to create internal capital. In particular, it is pointed out the not full ability to implement and carry out the strategies devised by the board of directors, for instance through practical commercial measures, which is also associated with a less favourable change in macroeconomic conditions than was expected. In the absence of any new strategies aimed at reducing the NPL and refocusing on profitable business areas, the high cost of risk and the persistent reduction in margins (influenced by a decrease in the volumes of funding and lending) will continue to materially affect profitability and the generation of internal capital (for more information, reference is made to paragraph "*Risks associated with capital adequacy*" above, describing the measures provided for in the Restructuring Plan to restore an adequate profitability level of the Issuer); (ii) the risk management system and organisational aspects considered as still not fully adequate because awaiting to assess the mitigation activities already implemented by the Group (see paragraph "*Credit risk and risk of credit quality deterioration*"); (iii) the credit quality associated with the high and above-average level of NPL. In this respect, the supervisory authority highlighted that the Issuer did not manage to implement the NPL management strategy submitted in 2015 (see paragraph "*Risks associated with the failed realisation of the Restructuring Plan*"); (iv) the market risk associated with certain details related to the measurement of the banking book's interest rate risk (for details on risks associated with capital adequacy, reference is made to "*Risks associated with capital adequacy*") and the high sensitivity to credit spread of the Government securities portfolio (see paragraph "*Risks associated with the Group's exposure to sovereign debt*"); (v) the operational risk in respect of the numbers of pending legal actions and the consolidation of the Group's reputation, which is still considered weak though gradually improving (for more details on operational risk, reference is made to paragraph "*Operational Risk*" of this Base Prospectus); (vi) the risk associated with the capital adequacy (for more details on risks associated with capital adequacy, please see paragraph "*Risks associated with capital adequacy*" of the Base Prospectus); and (vii) the liquidity risk associated with the volatility of commercial deposits and the Issuer's exposure to stress events, as observed in the last quarter of 2016 following the failure of 2016 Transaction. The supervisory authority has further highlighted risk profiles associated with the BMPS' structural financial position, the rebalancing of which still depends on the implementation of the extraordinary measures set out in the Restructuring Plan, among which the Capital Enhancement and Assignment of the NPL Portfolio (for more details on the related risks and the measures adopted by the Bank to mitigate the liquidity risk, reference is made to "*Liquidity risk*" below).

Furthermore, the ECB by the SREP Decision informed the Issuer that no additional capital requirements are requested further to the minimum ones set by the current legislation in force for the following subsidiaries: MPS Capital Services Banca per le Imprese, MPS Leasing & Factoring and Wise Dialog Bank S.p.A..

After the SREP's completion, the ECB introduced, instead, additional capital requirements, in line with art. 16(2) of Reg. 1024/2013 for foreign branches, MP Belgio and MP Banque, as described below. For further information on additional capital requirements, reference is made to "*Risks associated with capital adequacy and SREPs of foreign branches*".

Furthermore, following the conclusion of the SREP process on the subsidiary MP Belgio, the ECB highlighted some weakness and focus profiles mainly relating to: (i) a certain vulnerability of the business model due to low profitability, excessive concentration of assets and liabilities, and low diversification of assets, in particular the first five depositors representing almost 50 per cent. of the deposits' total amount, while the first twenty five credit exposures representing 37 per cent. of total lending; (ii) internal governance and risk management mainly concerning governance and control procedures aimed at verifying full consistency with MiFID regulation on financial instruments investments which involve customers; (iii) credit risk in terms of concentration of assets, concentration on Italian Government securities and at a cost of risk higher than the reference Belgian market average; (iv) operational risks (in particular on IT systems) and reputational impacts deriving from the events which concerned the Bank; and (v) liquidity risks (in particular for short term liquidity) and in relation to the sustainability of deposit collection. For more details on the risks associated with capital adequacy and the SREPs of the subsidiary MP Belgio reference is made to "*Risks associated with capital adequacy and SREPs of foreign branches*" of the Base Prospectus.

In relation to the subsidiary MP Banque the ECB highlighted some weakness and focus profiles mainly relating to: (i) a certain weakness of the business model caused by the increased cost of risk in the matter of credit and a not optimal ratio cost-income; (ii) internal governance and risk management linked to deficiencies in the credit deliberative process and information flows towards the supervisory board; (iii) capital risks, associated with and consequent to a) credit risks associated with the quality performance of the impaired loans portfolio, b) risks associated with the measurement and monitoring of the *banking book* interest rate, and c) operational risks associated with the number of loss events occurred throughout 2016 and still in progress as well as with the consequent higher exposure to reputational risks also due to the events which concerned the Bank; (iv) capital adequacy after the loss posted in the financial statement as at 31 December 2016 mainly referred to further and significant credit adjustments; and (v) liquidity risk in relation to short term liquidity and sustainability of deposit collection. For more details on the risks associated with capital adequacy and the SREPs of the subsidiary MP Belgio reference is made to "*Risks associated with capital adequacy and SREPs of foreign branches*" of the Base Prospectus.

In light of the above, there is the risk that the Issuer may find itself in the future, also in light of external factors and unforeseeable events outside the Group's control, having to acknowledge a failed compliance with qualitative requirements with the consequent need to comply with further requests of the supervisory authority as well as a higher level of capital ratios requested by the authority compared to those set by the SREP Decision. Such circumstances may require the adoption of a capital restoration plan and having to resort to capital enhancement interventions for the purpose of achieving the capital adequacy levels set by the supervisory authority.

Furthermore, there is the risk that, being conducted at least every year by the ECB, the supervisory authority may require compliance with capital adequacy levels higher than those in force after the SREP 2015 and the most recent SREP Decision notified in June 2017. The Issuer may therefore have to resort to further capital enhancement interventions.

As highlighted above, the BMPS Group is also active in France and Belgium with the two subsidiaries Banca Monte Paschi Belgio S.A and Monte Paschi Banque S.A. and, accordingly, the Group results are also affected by the results and operations of the companies of the Group. Any deterioration of profitability conditions and variables affecting the capital adequacy level of the foreign branches, among which the setting of new and more demanding requirements after the SREP process and more in general linked to the regulator's requests, may require the Group to support functional plans of the restoration of capital resources and to support the subsidiaries' level of assets and investments and have negative effects also on the economic, capital and/or financial condition of the Group. Furthermore, being the SREP having carried out by the ECB with at least annual frequency also on foreign branches, it cannot be excluded that, even after future SREPs, the supervisory authority may impose on foreign branches to maintain capital adequacy standards higher than those currently applicable and prescribe additional corrective measures. In such cases, it cannot be excluded that the Group may find itself in need, also in light of external factors and unforeseeable events outside its control, to resort to adequate measures aimed at restoring adequate levels of such ratios also for the branches.

Finally, it should be noted that the assignment of the foreign branches (meaning Banca Monte Paschi Belgio S.A. and Monte Paschi Banque S.A.) constitutes also one of the Restructuring Plan's commitments and, therefore, in the event of failed realisation of such assignment, it cannot be excluded that the Issuer will have to severely restrict the two banks' business to that closely aimed at deleveraging commitments, excluding the development of new activities and the entry into new markets, with consequent negative effects on the economic, capital and/or financial condition, due also to significant restructuring costs and the passible reduction of deposit collection.

b) Investigations of the ECB and the Bank of Italy

In consideration of the activity carried out by the Issuer, the latter is subject to the supervision of various authorities, among which – specifically – the ECB and the Bank of Italy that, within the limits of their competence and powers, may carry out investigations, both ordinary and extraordinary, on the Bank and/or the other supervised Group companies.

In May 2017 an on-site investigation initiated by the ECB and the Bank of Italy in May 2016 and concerning credit and counterparty risk as well as the risk control system of BMPS, MPS Capital Services Banca per le Imprese S.p.a. and MPS Leasing & Factoring was closed. In particular, the purpose of such inspection was to conduct a verification of the risk management process and the internal control system.

To this end, the investigation team examined almost the entire overall loan portfolio of the Group, with specific focus on:

1. classification of the performing loan portfolio;

2. verification of provisions created on the non-performing portfolio;

3. review of collateral values; and

4. data quality of credit risk.

On 7 June 2017, the ECB sent the Issuer the final report on such investigation activity highlighting several areas of improvement in the matter of identification of exposures to credit risk, classification, monitoring, reporting, organisation, data base and collateral management, policy and determination of provisions and specific disclosure to corporate bodies on the deterioration of credit quality. Some of the criticalities highlighted have already been resolved/implemented in the course of 2016 with the ARGO2 programme as described below ("**ARGO2**"). Provided that the Bank, as at the date of the Base Prospectus, has not received yet the draft follow-up letter from the joint supervisory team with the relating recommendations thereon, the Issuer does not hold to have to implement, following the aforementioned investigations, any further adjustments on loans which have not been already provided for in the Restructuring Plan.

In this respect, it has to be further noted that the Restructuring Plan fully transposes the findings of the investigation closed by the ECB on the loan portfolio (CFR) as at 31 December 2015 which highlighted further provisions to be created compared to the coverage levels as at the reference date. Such additional adjustments substantially overlap with those already recorded from 31 December 2015 to date, with the effects of the Assignment of the NPL Portfolio and with the increased coverage of the Impaired Loans portfolio provided for in the Restructuring Plan to facilitate such loans reduction process in the period 2017-2021. The residual impact of such additional adjustments linked to the abovementioned investigation (equal to around Euro 0.26 billion) has been included in the projections of the first years of the Plan, in consideration of a prudential credit cost estimate. It has to be deemed that such provisioning differences will be reflected in accounting insofar they will be matched with credit events which will entail a reduction of the cash-flows expected in respect of the exposures and/or portfolios under investigations.

Provided that, as at the date of this Base Prospectus, the Bank has not received yet the draft follow-up letter from the Joint Supervisory Team with the relating recommendations thereon, it cannot be excluded that, in the future, there will be deviations from the actions being implemented provided for in the context of the ARGO2 programme, from the action provided for by the Restructuring Plan for the improvement of the credit quality, and from the action plan that the Issuer will submit in respect of the aforementioned verifications. It being understood that the Issuer may not be certain about which possible measures the EU supervisory authority may adopt in case of failed fulfilment of the measures in progress according to the manners and times provided for and, therefore, what risk profiles may arise for the Issuer from such possibility, in such circumstance the EU supervisory authority may send the Issuer a formal letter with further requests of in-

depth analyses and activities to be realised within specific deadlines with possible effects on the economic and capital condition of the Group which are broadly described in "*Risks associated with capital adequacy*" above. Further, this may entails negative evaluation on the outcome of the subsequent SREP process and, as a consequence, the ECB may ask the Issuer for specific intervention measures and/or the application of higher capital requirements.

During the period January to May 2015 an ordinary investigation was further conducted by the ECB and the Bank of Italy in relation to the credit risk and the loan portfolio. The relevant final "follow-up" letter was sent to the Bank on 30 November 2015 setting out 31 recommendations provided by the investigation bodies and to which the Bank formally responded on 20 January 2016 by indicating the remedy actions identified. Such actions relate to organisational, internal regulation, process and control aspects, as well as structural enhancement of supporting IT tools. The major part of such actions has already been completed in compliance with the timetable set in terms of deliverables, while, for a marginal portion, the relating full deployment is still in progress in consideration of the complexity of the solution to be adopted.

Specifically, the recommendations addressed by the authority to the Issuer relates to six macro-areas, as specified below:

1. *Ordinary loans*: recommendations relating to: (i) loan classification and adequacy of provisions in compliance with the new policies; (ii) timely identification of impaired positions; (iii) reduction of the managers' directionality concerning classification of loans and write-downs; (iv) update of collaterals' informative basis; (v) completion of organisational and procedural changes within the monitoring of first tier credit; and (vi) enhancement of monitoring tools concerning moratorium exposures and "restructured exposures";

2. *Problem loans*: recommendations relating to: (i) completion of the review of recovery strategies and consequent internal reorganisation and rationalisation of external legal advisers; (ii) introduction of new processes for the reduction of disbursement and recovery times; (iii) completion of the integration at Group level of the credit monitoring and recovery process; and (iv) update of policies;

3. *Accounting aspects*: recommendations relating to provisioning policies and improvement of the relation between management and accounting systems;

4. *Risks*: recommendations relating to issues of: (i) enhancement of the monitoring of second tier credit also at Group level; and (ii) recalibration of risk parameters of the internal model to calculate collective provisions;

5. *Regulation*: recommendations relating to update and implementation issues of policies, operational guidelines and standards associated with the new credit classification and assessment rules; and

6. *IT*: recommendations relating to the improvement of IT systems in support of the credit and management process.

For the purposes of implementing the necessary actions in response to the observations that arose further to the abovementioned investigations, the Issuer activates internally a programme called ARGO2, which was established on 14 January 2016, for the purpose of responding to the 31 recommendations notified to the Bank by the ECB by the letter dated 30 November 2015. The remedy action plan agreed with the ECB provides for the completion of all activities by 31 December 2016, with the exception of remedy action no. 31 (relating to the structural architectural review of the credit support IT systems). For such action, with an overall deadline by the end of 2018 (as indicated in the road-map set on 31 March 2016), 30 June 2017 is provided as deadline for achieving important improvements in the context of credit support instruments. The actions implemented by such date are, specifically, the unification of the management of the special loans within the mortgage management system, the rationalisation and alignment of instruments for the documentary management of the loans, the extension of the loan's monitoring activity to the Unlikely to Pay loans, the creation of a sole data warahouse of the loans along with the introduction, in particular, of a dedicated analysis view (the so called "Loan Data Tape") for the Impaired Loans, which will be enhanced with information related to the Unlikely to Pay by the end of 2017. The activities functional to the resolution of corrective measure no. 31 continue with the rescheduling of some methodological, organisational and/or IT deliverables (such as, without limitation, the "modular credit line electronic file" solution), which however does not prejudice the overall structural review plan of the IT platform planned within 2018.

In relation to the ARGO2 – as reported more in detail in the section "*Banca Monte dei Paschi di Siena S.P.A. – Major Events – Recent developments – 2016 – Inspections 2016*" of the Base Prospectus – the monitoring

activity, as at 30 June 2017 which has been sent – as agreed – to the ECB in October, states the completion of all the deliverables (meaning as methodological, organisational and/or IT solutions developed and adopted following specific planning activities) and the related put in operation (the so called "deployment") as response to the recommendations having a deadline as at 31 December 2016, except for some of these associated with the remedy actions no. 12 and no. 21, for which:

- in relation to remedy action no. 12 – relating to the update and upgrade of the informative basis for the purpose of including all relevant information on collaterals:
  - the Bank completed the digitalisation of documents, with contextual integration of the informative set, of the stock of mortgage loans granted between 2002 and the end of 2015 (starting from such date the process provides for this activity to be carried out at the time of the generation of the new flow) for a number equal to 253,000 over a total of 380,000 loans, the majority of which (249,000) has already been entered in the Bank's informative bases, with the goal of completing all entries by 2017; and
  - retrieval and digitalisation activities of the remaining 127,000 loans are still in progress, being the documents of such loans mainly stored with branches, whereas, within the Bank's IT systems, the completion of digitalisation is planned by the second half of 2017 and the implementation of corrective measures by the first quarter of 2018 (enlargement of information set and data quality); and
- in relation to corrective action no. 21 – relating to the integration of MPS Capital Services and MPS Leasing & Factoring in BMPS's credit processes, including IT tools, for the purpose of assuring the correct application of policies at Group level – whilst starting from February 2017 the tool used by the Bank for the calculation of the analytic depreciation was adopted by MPS Capital Services, the deliverable aimed at extending the accounting management IT applications of the Bank's disputes to MPSCS is still not completed as it subordinated to the consistency with the strategic choices of the Restructuring Plan compared to the business model of such company, currently under assessment; the above is without prejudice to the fact that the actual reduction of the Doubtful Loan portfolio, which will remain after the completion of the Assignment of the NPL Portfolio, will significantly reduce the impact of the partial treatment inequality compared to the Bank.

On 25 September 2015 the internal model investigation relating to operational risk advanced internal models ("**AMA**") was closed. On 2 February 2017 the ECB sent the relevant follow-up letter to the Bank and expressed a favourable judgment on the evolutions of the AMA model implemented by the Group identifying some corrective measures aimed at the fine tuning of some methodological aspects. The Group notified to the ECB that during the first semester of 2017 all requested actions have been addressed and resolved according to the manners provided for by the ECB. Therefore, as at the date of the Base Prospectus, the Issuer believes to have remedied all the actions required, considering the activity ended and waiting for an official confirmation by the ECB.

Finally, on 4 December 2015, the internal model investigation on the calculation models of requirements in respect of credit risk was closed, but, as at the date of this Base Prospectus, the EU supervisory authority has not yet sent the Issuer the relevant "follow-up" letter. Although the Bank is still waiting for such follow-up letter, in the next weeks the Issuer – on the basis of the discussion occurred during the internal model investigations – will finalise the request for using a new methodological approach for the determination of the RWA on the exposures in default that may be used only upon the completion of validation activities by the supervisory authority. In the meantime, the ECB may require to the Issuer – as it may not adopt such new methodological approach for the regulatory calculation of the RWA on the exposures in default – a regulatory "add-on" of RWA. An estimation of such "add-on" has been included into the Restructuring Plan. For further information on any capital impacts of such "add-on", reference is made to "*Risks associated with the failed realisation of the Restructuring Plan*" above.

In the period September to December 2016, the Bank of Italy carried out a verification activity within various sample branches of the Bank concerning the verification of compliance with the provisions in the matter of transparency of contractual conditions and of the fairness of the relationships with retail customers, pursuant to art. 128 of the Italian Banking Act. By means of a note dated 28 August 2017 the Bank was informed of the findings of the investigation activity, and six observations were expressed, in respect of which the supervisory authority requested to provide structured and precise clarifications within 60 days of the receipt thereof, reserving the possibility to express further evaluations in respect of the responses received. Together with such observations, the Bank is asked for further clarifications about certain conducts objects of some petitions

received by the authority. On 27 October 2017, the Bank delivered the clarifications requested, as well as the indication of the remedy actions deemed necessary, including actions in restitution. The Bank of Italy will evaluate them.

On June 2017, the anti-money laundering service was subject to an inspection carried out directly *in loco* by the Bank of Italy, having as object <<*Gruppo Monte dei Paschi di Siena. Procedure in tema di individuazione e adeguata verifica rafforzata sui PEPs*>>. In such inspection, the Bank of Italy carried out an analysis on the organizational structure, the internal regulation, and the internal processes with a specific focus on the PEPs subjects' evaluation process (meaning any person politically exposed, the "**PEPs**") and the monitoring on a continuous basis, in addition to specific detailed studies on samples clients, independently identified. The inspection started on 5 June and ended on 6 July 2017. On 5 October 2017, the national supervisory authority informed the Bank's board of directors with the results of the thematic inspection also representing such thematic inspections carried out at systematic level, as opportunities for sharing best practices observed in such matter, and confirming that no sanctioning proceedings are expected thereon. The supervisory authority notified to the board of directors the findings of the aforementioned inspection, pointing out several improvable areas, related in particular to: the identification of politically exposed persons; the risk evaluation process; the adequate test; the internal control. On 27 October 2017, the board meeting approved the contents of the reply letter for the Bank of Italy, which will be sent by the terms indicated thereof.

On 20 September 2017, by a letter from the ECB dated 18 September, the Issuer was informed that, starting from 21 November 2017, within the context of the TRIM the Group and the Issuer will be subject to an on-site inspection, in relation to the internal models on credit risks with specific reference to PD and LGD parameters within the context of the retail exposures area – excluding SMEs – associated with real estate guarantees. The internal models review (TRIM) may have also significant impacts on RWA that, as at the date of the Base Prospectus, are not estimable (as better illustrated under the paragraph "*Risks associated with capital adequacy*" above).

The Bank is not subject to any further investigations activities, nor specific surveillance initiatives of greater relevance by the competent authorities, compared to what already reported.

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In light of the above, and with the exception of inspection activities in the matter of transparency of contractual conditions in respect of which – as previously mentioned – have been undertaken the verifications and in-depth analyses which will allow to provide the Bank of Italy with the clarifications requested and the indication of the remedy actions deemed necessary, the Issuer, as at the date of this Base Prospectus, identified mitigation actions for each area of improvement emerging from the investigations, some of which have already been closed and positively evaluated by the supervisory body, while others have been closed but are waiting for evaluation by the supervisory body and others are in the process of being implemented.

However, it cannot be excluded that, in the future, there will be deviations in respect of the identified remedy actions, deemed as sufficient by the Group in respect of the aforementioned verifications.

It being understood that the Issuer may not be certain about what possible measures the EU supervisory authority may adopt in case of failed fulfilment of the measures in progress according to the manners and times provided for and, therefore, what risk profiles may arise for the Issuer from such possibility, it is possible that in this circumstance the EU supervisory authority may send the Issuer a formal letter with further requests for in-depth analyses and activities to be realised within specific deadlines. It is further possible that this may entail a negative evaluation on the outcome of the subsequent SREP process and, as a consequence, the ECB may ask the Issuer for specific intervention measures and/or the application of higher capital requirements.

As at the date of this Base Prospectus, there are no specific supervisory initiatives taken by banking authorities within the Group subsidiaries which are to be highlighted.

It cannot be excluded that the Issuer and/or the Group companies may in the future be subject to assessments or specific requests by the ECB or the Bank of Italy. Similarly, it is not even possible to exclude that, should the Issuer not be able to promptly adapt to the requests of the authority and/or fulfil the obligations imposed thereby, it may be subject to sanctions, or other measures, with consequent negative impact on the economic, financial and/or capital condition of the Issuer and/or the Group, as well as under a reputational perspective.

c) CONSOB investigations

Further to the investigations carried out in 2012, on 19 April 2013 CONSOB notified the opening of two proceedings relating to the failure to comply with: (1) the provisions in the matter of public offer of financial instruments (art. 95, subsection 1, lett. c) of the legislative decree no. 58 of 24 February 1998 (as amended, the "**Consolidated Finance Act**") and art. 34-*decies* of the Issuer's regulation) with reference to the public offer of the "Casaforte classe A" securities within the context of the "Chianti Classico" transaction; and (2) the provisions concerning the rendering of investment services (art. 21, subsection 1, lett. a) and d), and subsection 1-*bis*, lett. a), of the Consolidated Finance Act; art. 15, 23 and 25 of the Joint Regulation Bank of Italy/CONSOB of 29 October 2007; art. 39 and 40 of CONSOB regulation no. 16190 of 29 October 2007; art. 8, subsection 1, of the Consolidated Finance Act. In particular, in relation to these proceedings, objections have been raised concerning: (i) irregularities relating to the conflict of interest regime; (ii) irregularities relating to the suitability assessment of transactions; (iii) irregularities relating to pricing process of the securities issued; and (iv) disclosure of untrue or partial data and information.

In relation to the first proceedings sub (1), with resolution no. 18850 of 2 April 2014, CONSOB closed it imposing pecuniary administrative sanctions for an aggregate amount of Euro 43,000, on the General Director in office and some managers of the Issuer without ascertaining any violation of the members of the board of directors and board of statutory auditors in office at the time of the events. The measure has not been challenged by the Bank.

In relation to the second proceedings sub (2), with resolution no. 18856 of 9 April 2014, CONSOB closed it imposing pecuniary administrative sanctions for an aggregate amount of Euro 2,395,000 against representatives and managers of the Bank's corporate structures. The measure has been appealed by the Bank before the Court of Appeal of Florence, which substantially denied the objections submited by the same Bank and some sanctioned persons, with the sole exception of the granting of one single objection in relation to the position of a manager addressee of a sanction equal to Euro 3,000. Further to this, the overall sanctions amount has been reduced to Euro 2,392,000. The appeal proceeding before the Supreme Court of Cassation is currently pending.

Both measures have been notified to the Bank, in its capacity as joint obligor, and the total amount of sanctions has been paid thereby in light of the joint obligation provided for by art. 195, subsection 9, of the Consolidated Finance Act in force at the time.

In relation to matters entrusted by the Consolidated Finance Act to the competence of CONSOB, such Supervisory authority may exercise the powers granted thereto against the Issuer and the Group. Specifically, CONSOB may – *inter alia* – submit the Issuer to investigations, even of ordinary nature and with periodic frequency, and/or ask to be provided with specific information or to publicly disclose other information.

Although, as at the date of this Base Prospectus, no investigation is pending against the Issuer and/or the Group companies, it cannot be excluded that the Issuer and/or the Group companies may in the future be subject to assessments or specific requests by the authority provided that the Bank is ordinarily subject to CONSOB informative supervision. It is not possible to exclude that, should the Issuer not be able to promptly adapt to the requests of the authority and/or fulfil the obligations imposed thereon thereby, it may be subject to sanctions, or other measures, with consequent negative consequences on the economic, financial and/or capital condition of the Issuer and/or the Group, as well as under a reputational perspective.

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It has to be noted that, although the Issuer has adopted, as at the date of this Base Prospectus, all measures deemed appropriate to resolve the criticalities highlighted by the supervisory authorities after the aforementioned investigations, there is no certainty that those latter are, in whole or in part, effective or whether in the future, after further assessments or investigations by the authorities, further interventions may be necessary or appropriate to remedy possible deficiencies possibly found. It cannot be excluded that, should the Issuer not be able to promptly adapt to the requests of the authorities and/or fulfil the obligations imposed on it, it may be subject to sanctions, or other measures, with consequent negative impact on the economic, financial and/or capital condition of the Issuer and/or the Group, as well as from a reputational perspective.

In the event that the Bank pays the sanctions as a joint obligor, as well as in all cases provided for by the law, the Bank shall take all the necessary steps functional at exercising the mandatory recourse actions *vis-à-vis* the sanctioned subjects and – in such case – no certainty is given that the amount paid by virtue of such obligation will be recovered following commencement of any such action. It is understood that the Issuer will have the power to suspend any recourse action against apical individuals in respect of whom no wilful misconduct, gross negligence, no corporate actions for liability were filed or committal for trial were ascertained in

connection with the disputed events or with any associated pending criminal proceedings, limited to the period allowing to resort to all of the legal remedies made available by the regulations in force.

In relation to the above investigations conducted by the ECB, it has to be noted that in the on-going implementation process of the measures requested by such supervisory authority frequent exchanges of documents and conversations also took place, aimed at evidencing the activities the Group was carrying out and hence verifying the correctness of such interventions' approach. Since some of the interventions requested, or which proved necessary in light of the criticalities found in the context of investigations, have been only recently realised or are, as at the date of the Base Prospectus, in the process of being realised, their effectiveness cannot be evaluated on the basis of a long lasting application thereof. Therefore, it cannot in general be excluded that the measures requested by the ECB and realised by the Issuer may subsequently prove not fully effective over time, determining negative effects on the capital, economic and financial condition of the Issuer and/or the Group.

Investors shall further consider that: (i) CONSOB, the Bank of Italy and the ECB – each authority to the extent of its competence – are entitled to require from the Issuer or to adopt other measures pursuant to the current regime; and (ii) the ECB is also entitled to request the Issuer an amount of own funds higher than the one provided for by the CRR and the Italian implementing regulation (for more information on the measures concerning own funds which the ECB may adopt please refer to "*Risks associated with capital adequacy*" above). The exercise of such powers by the authorities may have a negative impact on the economic, capital and financial condition and the capital ratios of the Issuer and/or the Group.

In consideration of the competences it was about to undertake in the context of the Single Supervisory Mechanism, the ECB carried out between 2013 and 2014, with the cooperation of national authorities (for Italy, the Bank of Italy) the comprehensive assessment, which also concerned the Bank and which consisted of: (i) an in-depth asset quality review; and (ii) a stress test, which provided a perspective analysis of the soundness of the Bank's solvability. For more information on the findings of the 2014 comprehensive assessment (meaning, in particular, the comprehensive assessment whose findings on the Bank were disclosed by the ECB on 26 October 2014, hereinafter the "**Comprehensive Assessment**") reference is made to section "*Banca Monte dei Paschi di Siena S.P.A. – Major Events – Recent developments – 2014 – Comprehensive assessment*" of this Base Prospectus.

It should be noted that it cannot be excluded that the ECB may decide to recommend a new asset quality review for the purpose of verifying the classifications and assessments operated by entities on their loans for the purpose of addressing the impairment thereof. In addition to the asset quality review exercise the ECB may also prescribe an additional stress test. In this respect, it has to be noted that the ECB, by letter dated 27 June, informed the Bank that in the course of the first semester 2018, the Bank will be subject to the SREP stress test, the findings of which will be factored in the overall assessment of the SREP 2018 (for further details reference is made to section "*Banca Monte dei Paschi di Siena S.P.A. – Major Events – Recent developments – 2017 – SREP annual process*" of the Base Prospectus). In such case it cannot be assured that the Issuer will satisfy the minimum parameters set in the context of such exercises and that accordingly, in case of failure the ECB may impose measures providing for, *inter alia*, the implementation of new capitalisation measures or other measures suitable to restore the capital shortage found in the Bank's own funds and/or the further requests of the SREP stress test 2018, with possible negative effects on the business and the economic, capital and financial condition of the Issuer and/or the Group. For more information on the risks associated with new stress test exercises – and, specifically, in relation to the one announced for the first semester of 2018 – reference is made to "*Risks associated with the uncertainty of future outcomes of stress tests or asset quality review exercises*" below.

Credit risk and risk of credit quality deterioration

The Group's business, economic, capital and financial soundness as well as the ability to generate profits depend, *inter alia*, on the creditworthiness of its clients, i.e. the risk that its contractual counterparties (including the counterparties of financial transactions on derivative securities traded over the counter – although in this case reference is more appropriately made to counterparty risk, as set out in "*Other risks associated with the banking and financial business*" below) default their obligations or that the creditworthiness of such counterparties deteriorates or that Group companies grant, based on untrue, incomplete or inaccurate information, loans that they would otherwise not have granted or they would have granted at different terms. Furthermore, not reducing the cost of funding for the Group in respect to competitors may affect negatively also the quality of the lending.

For more information on the risks associated with the Issuer's exposure to Impaired Loans, even in relation to the Assignment of the NPL Portfolio, reference is made to "*Risks associated with the Group's exposure to Impaired Loans*" above.

As at 30 September 2017, loans to customers amounted to Euro 91.0 billion, down by 14.7 per cent. compared to Euro 106.7 billion as at 31 December 2016. Within the aggregate figure, performing loans to customers amounted to Euro 80.7 billion and Impaired Loans to Euro 10.3 billion, respectively corresponding to 88.7 per cent. and 11.3 per cent. of total loans to customers (81.0 per cent. and 19.0 per cent. as at 31 December 2016).

As at 30 September 2017, Impaired Loans, including the loans subject matter of assignment and net of value adjustments, amount to Euro 15,142 million, down by Euro 5,178 million compared to the figure as at 31 December 2016 (-25.5 per cent.). The first nine months' dynamic highlights a reduction of the various items: Doubtful Loans (-29.8 per cent., -76.7 per cent. net of the portfolio subject matter of assignment); Past Due Impaired Exposures (-31.1 per cent.) and Unlikely to Pay (-20.0 per cent.).

As at 30 September 2017, exposures the subject matter of forbearance measures amount to Euro 7,801 million (of which Euro 5,303 million are impaired and Euro 2,498 million are not impaired) and can be fully referred to the "Loans to customers" and "Non-current assets and groups of assets held for sale and discontinued operations" portfolios.

Concentration risk is closely related to credit risk, deriving from exposures to counterparties and groups of related counterparties belonging to the same economic sector, exercising the same activity or coming from the same geographical area. In relation to the main Group's credit exposures to customers, the analysis of the first 100 amounts as at 30 September 2017 highlights an overall credit exposure to the first ten counterparties equal to Euro 2.6 billion.

From the analysis of the geographical distribution of the Group's customers as at 30 September 2017, we note how for the retail segment customers are mainly concentrated in Central (35 per cent.) and Southern (34.8 per cent.) regions; followed by North-east and North-west (respectively 16.6 per cent. and 13.6 per cent.). Similarly, for the corporate sector customers are mainly concentrated in the Central (35.1 per cent.) regions; followed by North-east and South (respectively 25.0 per cent. and 21.8 per cent.) and North-west (18.1 per cent.).

Forborne exposures

The loan classification within quality based categories (*in bonis*, Past Due Impaired Exposures, Unlikely to Pay, Doubtful Loans) is governed by the Bank of Italy's regulations transposed by the Group in its internal policies. For the purpose of transposing the requirements governed by the EBA's Implementing Technical Standards (ITS) the Bank's board of directors adopted, on 18 December 2014, the accounting policy called "*Loans, guarantees given and commitments to disburse funds*", which *inter alia* implements the provisions in the matter of "*Exposures for which measures of tolerance have been applied*" and governs the principles and criteria to be adopted for the exposure classification as "forborne receivable", whether performing or non-performing. The policy provisions and the consequent integrations to the informative system have been progressively implemented during 2015. In this respect, on 8 May 2015, the Bank's board of directors adopted the loan evaluation and classification policy, which set the basis for the alignment of forbearance measures' identification and management modalities in the company's and Group's processes to the aforementioned accounting policies already issued in December 2014, the supervisory rules and the observations expressed by the supervisory authority on the matter.

The main contents concern: (i) the identification of Impaired Loans (by introducing some impairment triggers for the automated classification of exposures from *in bonis* to non-performing); (ii) the principles and criteria to be adopted for the classification of exposures as "forborne loans", whether performing or non-performing; (iii) the assessment of Unlikely to Pay and Doubtful loans with the application of haircuts on guarantees; and (iv) the assessment of unsecured Impaired Loans (the Bank adopted some minimum thresholds to determine write-downs on unsecured Doubtful Loans subject to bankruptcy procedures).

With specific reference to forborne exposures, throughout 2015 an activity was furthermore carried out aimed at the full identification of forbearance exposures granted before 2015, in the context of the usual review process of granted credit lines.

In the course of 2016 interventions continued to fine-tune the tools available to the network for the identification of forbearance measures upon granting and their subsequent management, with the purpose of making the identification and management process more and more accurate. The training activities of all roles

within the network and the general direction involved for various reasons in the identification and management of forbearance measures also continued.

In this respect, a loan is identified as forborne after a specific assessment in which both the following conditions shall be satisfied:

- the state of financial difficulty the debtor faces or is on the verge of facing in meeting its financial commitments; and
- the concession of a tolerance in light of current financial difficulties or difficulties which would have materialised in the absence of the intervention of total or partial debt renegotiation/refinancing.

Accordingly, if, after the assessment process, the satisfaction of both conditions is established, the single agreement is identified by the Group as "Forbearance Exposure". At least two different roles and in particular the relationship manager as "proposer" and the resolving body are always in charge of verifying said conditions.

With regard to customers classified under Impaired Loans, the customer's economic difficulty is associated with its position's state. Accordingly, the customer's state of "financial difficulty" is objectively ascertained.

The verification of the forbearance concession is referred to the single agreement. The main cases among forbearance concession interventions are:

a) renegotiation of payment terms of an instalment loan;
b) extension of a temporary credit line approaching maturity; and
c) concession of a new credit line or increase of an outstanding credit line in the context of which overdraft or overdue uses are envisaged.

Decisions concerning the reclassification "*in bonis*" of "*Exposures for which impaired concessions have been applied*" and the exposure classification at higher risk, in compliance with the conditions provided for by the applicable regime, are assumed through a structured process allowing for the analysis and historicising of all available evaluation elements, which always provide for the assessment and decision to be assigned to at least two different roles.

Possible amendment requests to loan assessment methodologies and parameters by supervisory authorities and/or other amendments thereto as a consequence of evolutions in the reference legislation, or after the findings of inspections in progress, may entail increased Impaired Loans and related provisions as well as possible amendments to credit risk estimates, with possible negative effects on the business and the economic, capital and/or financial condition of the Issuer and/or the Group. For more information on the inspections in progress, reference is made to section "*Banca Monte dei Paschi di Siena S.P.A. – Major Events – Recent developments*" of this Base Prospectus, and for the related risks to "*Risks associated with the investigations of supervisory authorities*" above.

Regardless of the source giving rise thereto (legislative changes, macroeconomic aspects or other), the worsening of credit quality would expose the Group to the risk of possibly increased "Net value adjustments on impaired exposures" and cost of funding with consequent decreased profitability and profits, if any, available to the Issuer for distribution, as well as lower self-funding capacity, with further possible negative effects on the business and the economic, capital and/or financial condition of the Issuer and/or the Group.

Large Exposures

The large exposures' values are determined with Basel III parameters, which define large exposure as the exposure to a client, or group of related clients, of nominal value equal to or greater than 10 per cent. of eligible capital (the "**Large Exposure**"). Eligible capital, as set out in article 4 (71) of the CRR, is comprised of Tier 1 capital, plus Tier 2 capital to the maximum extent of one-third of Tier 1 capital (for 2016, a derogation is in force which increases the maximum extent to half of Tier 1 capital).

As at the aforementioned accounting dates, Large Exposures were comprised as follows: (i) no. 12 position as at 30 September 2017, (ii) no. 16 position as at 31 December 2016, (iii) no. 11 position as at 31 December 2015, and (iv) no. 11 positions as at 31 December 2014.

The decreased number of Large Exposures as at 30 September 2017 and the related decreased book and weighted value compared to 31 December 2016 derives from the increase of own funds and accordingly of eligible capital following both the realisation of the Burden Sharing and the Precautionary Recapitalisation,

implemented by the MEF, and the overall reduction of the operations with those counterparties object of reporting upon Large Exposure. At consolidated level, no Large Exposures exceed the regulatory threshold equal to 25 per cent. of the eligible capital. At single Group company level, no such exceedings are recorded either upon the Issuer or upon MPS Leasing & Factoring, while MPS Capital Service exceeds such threshold with respect to 7 exposures which will be re-entered once the capital increase of Euro 898,857,120 – as expected by the half of November – will be realised, involving the repositioning of own funds on a such level to ensure the compliance with regulatory thresholds.

The increased book value deriving from the comparison between the 2016 financial year and the situation as at 31 December 2015 is partially due to increased operations with central counterparties, namely Cassa di Compensazione e Garanzia of the London Stock Exchange Group and partially to the higher number of entities which as at 31 December 2016 are included in the Large Exposures reporting. The decreased book value deriving from the comparison between the 2015 financial year and the situation as at 31 December 2014 is mainly due to the closing of the Nomura International PLC ("**Nomura**") position. In such matter, as at 31 December 2016 and 31 December 2015, no positions were found exceeding the limit on Large Exposures, while as at 31 December 2014 only one position was exceeding the limit referred to the Nomura counterparty (equal to 34.68 per cent. of own funds as at 31 December 2014). In relation to the structured finance transaction called "Alexandria", the Issuer, and Nomura, on 23 September 2015 entered into an agreement governing the conditions for the early closing of transactions, entered into in 2009, concerning an investment in asset swap BTPs with maturity in 2034, of the value of Euro 3 billion, funded with a "Long Term Repo" of equal term; as a consequence of such closing, the position relating to the Alexandria transaction is no longer comprised among Large Exposures.

For more information on the characteristics of the Alexandria transaction and the agreement dated 23 September 2015 reference is made to section "*Banca Monte dei Paschi di Siena S.P.A. – Major Events – Recent developments – 2015 – "Alexandria" transaction – settlement agreement*" of this Base Prospectus.

At single Group company level, furthermore, as at 31 December 2014, there was one position exceeding the limit on Large Exposures referred to the subsidiary MPS Capital Services (equal to 34.72 per cent. of own funds as at such date). As at 31 December 2016 and 31 December 2015, there were no positions exceeding the limit on Large Exposures, since the exceeding position detected as at 31 December 2014 had been reduced below the regulatory limit. Furthermore, in the course of the first half of 2016, a capital increase of Euro 1,200 million was been finalised. For the subsidiary MPS Leasing & Factoring, as at 31 December 2014, there were two positions exceeding the limit on Large Exposures (equal to 34.94 per cent. and 34.12 per cent. of own funds, respectively).

As at 30 September 2017, 31 December 2016 and 31 December 2015, there were no positions exceeding the limit also due to the effect of the Euro 500 million capital increase finalised by the subsidiary in the course of the fourth quarter 2015. For the Issuer, as at 31 December 2016, the exposures limit was exceeded in respect of one corporate counterparty which set the ratio with eligible capital at 25.45 per cent..

Finally, although risks associated with Large Exposures are periodically monitored at Group level, an excessive concentration of exposures to single counterparty or groups of related counterparties may determine, in case of deterioration of the related creditworthiness, negative effects on the economic, capital and/or financial condition of the Issuer and/or the Group.

* * * *

It should be noted that the assessment of possible losses the Issuer and/or the Group may incur in respect of single credit exposures and the aggregate lending portfolio depends – besides on the reference legislative and regulatory framework – upon several factors, among which, without limitation, the trend of general economic conditions as well as those relating to specific productive sectors, the worsening of the competitive position of counterparties in the respective business sectors, the possible bad management of enterprises or borrowers, movements in interest rates, the indebtedness level of families, the dynamic of the real estate market as well as other elements which, for various reasons, may affect the credit worthiness of counterparties and/or the value of guarantees in protection of risks taken. Historically, credit risks have always worsened in periods of economic recession or stagnation, typically characterised by higher insolvency and failure rates.

The persisting crisis situation of credit markets and of the slowing down phase of the global economy observed over the last years may further reduce families' available income and enterprises profitability and/or

have a negative impacts on banking customers' ability to fulfil the obligations undertaken. In addition, the future occurrence of additional adverse economic circumstance, may entail a further reduction of the value of collaterals received and/or the impossibility for clients to supplement collaterals given. Finally, the general macroeconomic situation, the trend of specific business sectors and the actions of supervisory authorities may entail a further reduction of the value of the collateral received by the Issuer and/or the Group.

It has to be also considered that, at the end of 2016, the new chief lending officer direction was set up with the purpose of speeding up the management rationalisation and improvement process launched in 2015 of the relevant amount of non-performing exposures and making risk monitoring on performing exposures more efficient and effective. To this end, an organisational structure dedicated to the management of high risk positions has in fact been set up. The intervention, which provides for the transfer of title of such positions to dedicated commercial managers, will allow to redirect the Group's focus on the most risky performing positions with the goal of intervening in a more timely manner upon the arising of the first signals of impairment. Finally, at organisational level, an area has been created directly reporting to the chief lending officer with transversal governance and direction duties over the entire both performing and non-performing loan portfolio.

For more information on (i) the criticalities highlighted by the ECB in relation to the credit risk within the context the SREP Decision, reference is made to "*Risks associated with the investigations of supervisory authorities*" above and (ii) the findings of the SREP Decision, reference is made to section "*Banca Monte dei Paschi di Siena S.P.A. – Major Events – Recent developments – 2017 – SREP annual process*" of this Base Prospectus.

Investors shall finally consider that, on 4 December 2015, the internal model investigation for the calculation of requirements in respect of credit risk was closed. As at the date of this Base Prospectus, the ECB has not yet sent the final letter in respect of such investigation.

In light of the above, it cannot be excluded that, subsequent to the conclusion of the transaction related to the Assignment of the NPL Portfolio, a possible further deterioration of credit quality may occur – compared to that already recorded during past financial years – with consequent increased Impaired Loans and relating value adjustments and which may therefore entail negative effects, even significant, on the economic, financial and capital condition of the Issuer and/or the Group.

Although the Group monitors credit risk through specific policies and procedures aimed at identifying, monitoring and managing it and periodically carries out a new estimation of risk parameters and provisions for losses, if any, also on the basis of available historical information, the occurrence of the abovementioned circumstances as well as of unexpected and/or unpredicted events may lead to increased Impaired Loans and provisions relating thereto as well as to possible amendments to credit risk estimates, with possible negative effects on the business and the economic, capital and/or financial condition of the Bank and/or the Group.

Specifically, in relation to the procedures adopted by the Group to monitor credit risk, during 2015, the board of statutory auditors kept its focus on the credit process by conducting verifications, both within central and peripheral structures, which concerned more phases of the credit process and aimed at ascertaining the effectiveness and efficiency degree thereof. In relation to the definition of credit policies, the situation found was of substantial control over codified guidance and methodologies in use. Instead, in relation to the credit evaluation process, the focus was on the analytical estimate of cash exposure of loans to customers classified as doubtful, the outcome of which highlighted the existence of various areas of improvement, due to the complex planning and reorganisation activities in progress, which were implemented in accordance with the corrective measures specified by the ECB. The credit assignment process which referred to single positions was then verified and, although overall of negligible amount and although in presence of a situation of substantial adequacy, potential operational risks have been found to be basically associated with the existence of a discretion degree in the assessment of assignment proposals.

In relation to the verifications conducted on the domestic network in the course of 2015, verifications brought to light some behavioural anomalies compared to established processes, which from time to time reported to the respective reference structures. Specifically, the need to achieve a more accurate use of the "credit monitoring" application as an instrument specifically introduced for the purpose of ensuring the timely identification of positions showing anomaly signals has been highlighted. In this respect, in fact, the non-complete abidance with the required fulfilments has been noted, which does not allow for the correct update of managed portfolios. Compensatory controls are in any case carried out by the credit department. Further areas of improvement can be referred to the preliminary investigation phase of the credit process, as well as to the

perfection and management of personal and consortium guarantees and the retention of contractual documents (See "board of statutory auditors' report" included in the 2015 Financial Statement pp. 865-880).

During 2016, the board of statutory auditors continued its verification activity concerning the credit area. Specifically, with the assistance of the internal audit function, the board of statutory auditors directly visited the network where an annual activity programme was being conducted and focused on the credit origination process, with regard to abidance by with the fulfilments associated with the beginning of the preliminary investigation, the formalisation of guarantees (assessment) and the subsequent granting of credit lines to customers (disbursement). Such investigations commenced in the first quarter of 2016 within some "Market Territorial Departments" (*Direzioni Territoriali Mercato* – "**DTM**"), selected for each territorial area comprising the network. Verifications highlighted a situation of adequacy under the credit process formalisation point of view within the company's regulations, although finding focus areas mainly referred to behavioural aspects concerning the execution modalities of the various stages of the process itself.

In the second quarter, this exercise was replicated within the same structures, thorough specific follow-up activities from which an overall improvement of previously found criticalities emerged, thanks to mitigation interventions, of a training nature, put in place in the meantime by the competent Bank functions, solicited by the board of statutory auditors to increase the culture of risk and compliance with rules and corporate policies.

Furthermore, two verifications were conducted, which were provided for in the prior annual action plan, but closed in the first months of 2016, concerning the "Credit recovery" and "Management of relations with vendors" processes.

The findings of the review in the matter of credit recovery were then included in the ARGO2 programme, specifically for the aspects associated with the failed update of the informative sheets relating to each non performing file (the so called business plan) as well as for the times, both of transfer of doubtful positions and of activation of recovery actions, which both resulted in not being functional. As part of the planning of the verification activities for 2017, specific focus continued to be dedicated to the credit process, in respect of which, in continuity with the activities carried out in 2016, specific verifications have been defined – both at central and peripheral level – to be conducted during the year, with the usual support of the internal audit functions.

To date, verifications within the network (DTM) concerning the credit origination – with a view of correct risk taking and the monitoring of quality and granting of loans – and document management process, referred to the formalisation and retention of contractual documents underlying services delivered to customers have been conducted, with a view to verifying the monitoring of management activities, associated operational risks and related controls, with specific focus on the credit and investment services area.

Such verification, carried out in two different stages, concerned the new lending transactions referred to the period 1 October 2016 to 28 February 2017 and the findings highlighted an improvement in the second detection step in which, in relation to the "origination" process, deficiencies have in fact been recorded in 23.2 per cent. of the examined cases against 30.3 per cent. recorded in the past. Although in a slightly improved context, the persistence of focus areas has nonetheless been observed, where, in presence of reasons mainly referred to behavioural aspects, some deficiencies have been found in the preliminary investigation phase.

With regard to the "document management" process, a picture characterised by a non-negligible level of uncompleted files has emerged. This situation is caused by delays in the various contracting and communication of credit lines phases. Even in this case the reasons are mainly to be found in behavioural aspects, to be referred to practices not always aligned with the current legislation or to inadequate knowledge of operational modalities. During the verifications, awareness interventions were carried out, with positive feedback, on the correct operational modalities to be adopted for the purpose of mitigating the risks associated with the activity under examination. The board of statutory auditors declared that it was committed, together with the internal audit function, to the constant monitoring of the effectiveness of the remedy actions put in place by the competent functions for the purpose of fully removing the anomalies found.

As part of the monitoring activity conducted by the board of statutory auditors, upon indication of the JST, of relevance is the one associated with the ARGO2, aimed at achieving the improvement goals (findings) highlighted by the ECB during the on-site inspection on the credit portfolio, conducted by the same authority in the course of 2015. The verifications under examination evidence the overall enhancement of controls over

credit risk, specifically obtained with the restructuring of provisions, rules and underlying processes. In fact the regulatory framework, operational processes as well as supporting IT systems were reviewed. Although in an improved framework, the persistence of focus areas with specific reference to the effectiveness of line controls (the so called 1st level controls), or of operational and management controls, aimed at assuring the correct performance of operations and constant compliance with corporate policies were however been recorded. Furthermore, the filed consistency between behaviours put in place and corporate rules is of relevance, specifically with reference to credit recovery associated activities, where the main risk factor is behavioural.

Although the remedy plan set up in this respect by the JST provided for its conclusion in financial year 2016, the closing of certain findings, although also considered by this body of essence and not to be postponed, has nonetheless been postponed to 2017. Accordingly, during 2017 the board of statutory auditors continued its supervisory activity over the implementation of the remedies indicated by the ECB, taking care of soliciting from time to time the competent functions, committing them to compliance with the envisaged time table. However, in spite of the improvements achieved, some delays in the planning activities shall be pointed out, mainly concerning to the IT component, which than led to postponement of the relevant completion within the expected times. In particular, remediation activities still in progress concerned interventions aimed at improving the accuracy of information used in the credit processes. The finalisation of such activities allowed in particular the information relating to mortgage guarantees more complete. The impact of delays in the performance of certain corrective actions represents an area of specific focus for the control body.

The board of statutory auditors remains therefore committed to continuing its monitoring of the final realisation of the ARGO2 and to bringing to the attention of the JST the further completion of remedies and those for which the aforementioned delays have been recorded and on which the related follow-up activities continue; this is to assess the degree of concrete implementation of adopted measures in order to improve the efficiency of corporate processes on the terms specified by the ECB.

Risks associated with assignments of Impaired Loans

As part of its typical business, the Issuer puts in place credit assignment transactions, for more information on the most significant ones, reference is made to the Financial Statement 2016 and the interim Financial Statement 2017, incorporated by reference to this Base Prospectus.

Without prejudice to what was provided in the context of the Assignment of the NPL Portfolio (for more information in this respect, reference is made to "*Risks associated with the Assignment of the NPL Portfolio*" above), it has to be noted that the Issuer may find itself in needs to resort to new Impaired Loan assignment transactions in respect of a possible further deterioration of credit quality, even after the conclusion of the Assignment of the NPL Portfolio, should the Group be forced to pursue more demanding reduction targets of the amount of Impaired Loans in terms of amount or times compared to planned ones, even as a consequence of requests by the supervisory authority, with consequent negative effects on the economic, capital and financial condition of the Issuer and the Group.

Specifically, the credit assessment in the financial statement – including loans the subject to a matter of assignment – is conducted by the Issuer on the basis of an estimate of recovery flows that could be obtained considering the range of possible available actions, taking account of the debtor's payment capacity and the foreseeable realisation value deriving from the enforcement of any guarantee assisting the loan, net of relating direct costs. In line with was what provided for by the reference International Accounting Standards, these loans' book value is obtained by actualising the mentioned expected cash flows on the basis of the original effective interest rate of the position and the expected recovery time.

The perfection of assignments may entail the debit through profit or loss of higher value adjustments on credits for a significant amount due to the well-known spread between the value at which Impaired Loans (and specifically Doubtful Loans) are recorded in the Banks' balance sheet and the consideration that market operators specialising in the management of distressed assets are willing to offer to purchase them. Recovery expectations of cash flows that could be obtained from the debtor and/or liquidation procedures being unchanged, the difference between the book value and the consideration for the assignment is in fact affected by the high yield rates investors intend to realise, as well as by management costs (costs of staff and organisational structures dedicate to the recovery activity) which prospective purchasers must cover, which factors are discounted in the determination of the purchase price of the same loans.

With this perspective, the perfection of credit assignment transactions may lead to the need of debiting through profit or loss further value adjustments of the same loans with consequent negative impacts, even significant, on the economic, capital and financial condition of the Issuer and/or the Group. Furthermore, it cannot be excluded that the Issuer may not be able to find a counterparty willing to participate in possible credit assignment transactions the Bank may decide to carry out.

In in this respect, it should be further specified that among the commitments of the Restructuring Plan it is also provided to strengthen the risks' monitoring activities, with specific reference to credit risk, the adequacy of lending and commercial policies adopted by the Bank, as well as to the monitoring of such risks. For more information on the risks associated with the failed compliance with the commitments, reference is made to "*Risks associated with the failed realisation of the Restructuring Plan*".

Liquidity risk

The availability of liquidity as well as access to the long term financing market represent key elements carrying out the typical banks and financial institutions business. In particular, the liquidity and long term financing are crucial for a bank to be able to fulfil its payment obligations, expected or unexpected, in such a way that does not prejudice its current operations or its capital and/or financial conditions.

Liquidity risk means the Bank's inability to fulfil certain or expected payment obligations with reasonable certainty. This occurs when internal (specific crisis) or external (macroeconomic conditions) reasons result in the Bank having to deal with a sudden reduction of available liquidity or with a sudden need to increase the funding.

Typically, the forms in which liquidity risk takes place are:

- *market liquidity risk:* associated with the possibility that the Bank is not able to liquidate a balance sheet asset without incurring capital losses or with realisation times generally longer due to low liquidity or inefficiencies in the reference market; and
- *funding liquidity risk:* represents the possibility that the Bank is not able to fulfil expected and unexpected payment obligations, according to cost-effective criteria and without prejudice to its typical business or the same Bank's financial condition.

In relation to liquidity risk, in accordance with the ECB's requests, BMPS implemented solid strategies, policies, processes and systems for the identification, measurement, management and monitoring of liquidity risk as well as improved its structural liquidity position (funding). After the significant outflows of deposits on occasion of the failed perfection of the 2016 Transaction, during the first quarter of 2017, deposits highlighted a better stability, after the Issuer's request to activate the Precautionary Recapitalisation and the granting of state guarantee over the issue of new liabilities. Specifically, customers' current accounts increased in the first semester of 2017 by around Euro 8.6 billion, (recovering a good portion of the decrease of the second semester of 2016, equal to around Euro -12 billion).

Lastly, the ECB notified BMPS, with the SREP Decision sent on 19 June 2017, that on the basis of the actions put in place so far, no further liquidity enhancement intervention was required. However, the ECB highlighted that, although BMPS improved its structural liquidity position, adopted modalities, strategies, processes and mechanisms for the coverage of liquidity risk and the liquidity held by BMPS at individual and consolidated level provides sufficient coverage of liquidity risks, risk profiles still remain linked to commercial deposits' volatility and to the Bank's exposure to stress events, as observed in the last quarter of 2016 following the failure of the 2016 Transaction, as well as the risk associated with the failed realisation of extraordinary measures provided for in the Restructuring Plan, among which the Capital Enhancement and the Assignment of the NPL Portfolio, may prevent the rebalancing of its structural position as planned.

In this respect, it is highlighted that the Precautionary Recapitalisation, *per se*, is expected to provide a direct contribution to structural liquidity, yet in the course of 2017, for an initial amount of Euro 3.9 billion, disbursed by the MEF in subscription of the Capital Increase, which will be accompanied by the amount, again disbursed by the MEF in the context of the redemption in favour of retail bond holders who will request so (for an estimated amount up to additional Euro 1.5 billion). Equally, significant is the contribution to structural liquidity expected from the assignment of NPLs for an estimated amount exceeding Euro 5 billion, deriving from the sale of securities issued in the context of the envisaged securitisation transaction. This contribution is mainly envisaged to occur in the course of 2018.

For more information on the SREP Decision, reference is made to section "*Banca Monte dei Paschi di Siena S.P.A. – Major Events – Recent developments – 2017*" – *SREP annual process*" of this Base Prospectus and in relation to, more in general, the risks associated with the inspections of supervisory authorities, reference is made to "*Risks associated with the investigations of supervisory authorities*" above.

a) Liquidity indicators relating to the Issuer

The main indicators used by the Issuer for the assessment of the liquidity profile are the following:

- *Liquidity Coverage Ratio* ("**LCR**"), representing the short term liquidity indicator and corresponding to the ratio between the amount of high quality liquidity assets and to total net cash outflows in the 30 subsequent calendar days. Starting from January 2016, the indicator is subject to a minimum regulatory requirement of 70 per cent., which is equal to 80 per cent. in 2017 and will be equal to 100 per cent. in 2018;
- *Net Stable Funding Ratio* ("**NSFR**"), representing the 12 month structural liquidity indicator and corresponding to the ratio between the available amount of stable funding and the mandatory amount of stable funding. In this respect, the European Commission published, on 23 November 2016, a legislative proposal providing for - *inter alia* – the introduction of the NSFR. This first introduction phase of the NSFR is preparatory to the definition of the calculation rules of the indicator and the minimum requirements to be complied with; and
- *Loan to Deposit Ratio,* representing the ratio between lending to customers and direct deposit collection, excluding transactions with central counterparties.

The Liquidity Coverage Ratio (LCR), as short term liquidity indicator, as at 30 September 2017 is equal to 233.6 per cent., above the minimum regulatory requirement applicable for 2017, equal to 80 per cent..

It has to be also noted that the quantification of the aggregate data at the basis of the calculation of the above described liquidity indicators does not contain discretional evaluations by the Bank.

The LCR indicator is exposed to the risk of further negative variations associated with tensions in commercial deposit collections, to which the Group is subject, and to possible other negative events for liquidity (e.g., downgrading of the Bank or reduced counterbalancing value) which may occur in the near future.

The Net Stable Funding Ratio (NSFR), as medium/long term liquidity indicator, as at 30 September 2017 is equal to 106.8 per cent., increased compared to December 2016, equal to 87.6 per cent.. Such increase is mainly linked to the recovery of commercial deposit collections, and the issuance of new notes backed by governmental guarantee, granted by the Ministry of Treasury pursuant to law decree 23 December 2016, no. 237 (Chapter 1) and the realisation of the Capital Increase operation.

As at 30 September 2017 (most recent available data since calculated on financial statement data), the Group's loan-to-deposit ratio amounted to 88.4 per cent. compared to 102 per cent. as at 31 December 2016, and to an average of the Italian banking system, as at 31 December 2016, equal to 84.3 per cent.[2]. Such indicator's improvement is to be referred to the increased level of funding coming from the network and to reduced gross commercial loans. As at 31 December 2015 the Group's loan-to-deposit ratio was equal to 93.4 per cent., while as at 31 December 2014, it was equal to 97.4 per cent. (restated data).

In relation to direct deposit collection, it has to be noted that at the end of 2016 the Group's debt to customers amounted to Euro 80.7 billion down by Euro 7.1 billion compared to the end of 2015 due to the reduction of current accounts, term deposits and other forms of deposit collection (decreased by Euro 21.8 billion) partially set off by increased repurchase agreements (in aggregate increased by Euro 14.7 billion). Compared to the volumes recorded at the end of 2014, the Group's debt to customers recorded in 2016 a reduction by Euro 9.1 billion mainly concentrated on deposits, which also underwent a re-composition of funds from current accounts to term deposits, and to other deposit collection forms. In the three years from 2014 to 2016 Group customers dropped by around 200,000 units.

During the first nine months of 2017 and, specifically, at the end of September 2017, the Group's debt to customers was equal to Euro 82.0 billion (increased by Euro 1.3 billion compared to Euro 80.7 billion as at 31 December 2016) with current accounts and term deposits recording, compared to the end of 2016, an overall increase equal to Euro 11.0 billion. Such aggregate data have been affected by the recovery of commercial deposit collection. As at 30 September 2017, the Group carried out its banking business holding relations with

[2] Source of system data: appendix to the annual report of the Bank of Italy on 2016, table a13.17 pp. 104.

around five million clients. On a monthly basis, the Group monitors concentration risks of funding sources of both a financial and commercial nature, with specific focus on the detail of the main non-retail counterparties. The risk of concentration of the deposits collection's sources held by BMPS Group exists and is linked to a significant depositor, the average in stock of which is affected by the seasonality with a sensible reduction expected for the end of the year. The risks' measures include any evolution of such balance and the related adequacy evaluations on the actual and future liquidity have highlighted positive results both in the ordinary operations and under stress conditions. At the end of September 2017, deposit collection through unsecured channels amounted to 66.6 per cent. of total collections, of which 5.9 per cent. were related to financial non-retail counterparties and 15.8 per cent. were related to non-financial non-retail counterparties. In this latter category the main counterparty is "CSEA – Cassa per i Servizi Energetici e Ambientali", with an overall exposure of 28.4 per cent. of total non-financial non-retail counterparties (corresponding to 6.7 per cent. of total deposit collections carried out through unsecured channels).

The Group carries out the daily monitoring of the level of counterbalancing capacity (meant as the Bank's capacity to deal with its liquidity demand, and comprised of available sources on the "RTGS" account held with the European Central Bank and non-committed eligible asset stocks available for funding transactions) and of the "Operational Liquidity Portfolio" (prospective liquidity situation based on expected payment commitments). Furthermore, the Group determines a "Time-to-Survival" ("**TTS**") under stress, defined as the time range during which the post stress liquidity buffer (given as the difference between the "Operational Liquidity Portfolio" at a certain date and absorption of liquidity generated by the "Cumulative Management Stress Test") goes to zero: this measure, in substance, defines the Bank's survival time in the theoretical case of simultaneous realisation of particularly unfavourable circumstances in the market performance and of a specific nature.

As at 31 December 2016, the counterbalancing capacity level amounted to Euro 6.9 billion (Euro 23.9 billion as at 31 December 2015) and the TTS under stress was equal to 0 calendar days (122 calendar days as at 31 December 2015). As at 30 September 2017, the operational liquidity position showed a non-committed counterbalancing capacity level equal to Euro 21.1 billion, and the TTS under stress was equal to 114 calendar days.

In this respect, it cannot be excluded that an additional liquidity crisis, as a consequence of the uncertainties characterising the current macroeconomic scenario and the performance of markets and, in general, of other events outside the Issuer's control, may have repercussions on the Bank's liquidity profile and call for the adoption of measures which may have a negative impact on the economic, capital and/or financial condition of the Issuer and/or the Group.

Finally, it has to be noted that failed compliance with the minimum requirements provided for by the legislation applicable to the Issuer for liquidity indicators – and, specifically, for LCR and, starting from 2018, NSFR – may entail the adoption against the Issuer of specific measures by the authorities and, should the Issuer and/or the Group not be able to adopt such measures or fulfil the obligations imposed by the same Authorities, may have a negative impact on the economic, capital and/or financial condition of the Issuer and/or the Group.

b) Risks associated with the macroeconomic context in which the Group operates

In the last few years, the macroeconomic scenario in which the Group operates has been characterised by persistent and long-lasting periods of high volatility and instability of financial markets, initially due to the collapse of a number of financial institutions and then to the crisis of sovereign debt of a number of countries, among which Italy. Such market instability and volatile conditions caused a considerable difficulty in raisings liquidity on institutional markets, a contraction of interbank loans and significantly higher costs of funding on the retail market, in part due to the wide spread and increasing lack of clients' confidence towards European banking operators. The sum of such factors, *inter alia*, significantly reduced liquidity supply sources for financial institutions, including the Group.

As at 30 September 2017, direct deposit collection of the "retail banking" business segment (inclusive of retail clients and "small business" markets) was equal to around Euro 41.9 billion, and highlights a decrease by Euro 1.4 billion compared to the end of December 2016, equal to Euro 43.3 billion, with a recovery of on-demand and short term forms and a decrease of medium-long term forms affected also by bond maturities in the first semester and by conversion of the subordinated loan being the object of Burden Sharing.

In this general context, the problems specific to the Group, with particular reference to the outcome of the Comprehensive Assessment, published in October 2014, further reduced the Group's ability to access the

market, which in the course of 2015 has, in fact, been more difficult and expensive compared to the rest of the system. Such difficulty to access the market continued also in 2016 and 2017, mainly as a consequence of: (i) the introduction of the bail-in regime (which consists in the reduction of shareholders' and creditors' rights or their rights being converted into capital pursuant to Decree 180) and, specifically, of the Minimum Requirements for Own Funds and Eligible Liabilities (the "**MREL**"), i.e. of minimum requirements of own funds and eligible liabilities required, (ii) market concerns associated with the burden of NPLs on the Group's balance sheet, also subsequent to the letter received from the ECB on 23 June 2016 and (iii) the failed finalisation of the 2016 Transaction.

After the approval of the Restructuring Plan by the European Commission – last occurred on 4 July – the Bank executed the Capital Enhancement, according to the terms and modalities provided for in the MEF Decrees published on 28 July 2017 in the Official Gazette – pursuant to Law Decree 23 December 2016, no. 237 (converted with amendments by Law 17 February 2017 no. 15 and subsequently amended) which provided for, respectively *(a)* the Bank's Capital Increase, to service the subscription of no. 593,869,870 shares by the MEF and *(b)* the application of burden sharing measures as per art. 22, subsections 2 and 4 of the Decree 237 and the issuance of shares to be assigned to the holders of subordinated notes issued by the Bank to which such measures are applicable.

The realisation of the Precautionary Recapitalisation and the Capital Enhancement should allow the Issuer and the Group, *inter alia*, to restore normal access conditions to the capital market. On the other side, it cannot be excluded that – even as a consequence of the Capital Enhancement – should the negative trend of the macroeconomic scenario continue, the Bank's profitability situation may not be in line with expectations, specifically those of the Restructuring Plan, or due to unforeseeable external factors or in any case factors outside the Bank's control – the Group may find new difficulties in accessing the market.

c) Risks associated with the Issuer indebtedness

The Group, as other Italian and European financial institutions, resorts to the refinancing transactions launched by the ECB ("**TLTROs**") and guaranteed by assets pledged by the Issuer, within the limits and according to the rules established in the Eurosystem. With specific reference to the second series of specific transactions aimed at longer term refinancing announced by the ECB on 10 March 2016 ("**TLTRO II**"), each counterparty (or banking group) was entitled to borrow an amount in aggregate not exceeding 30 per cent. of the amount of eligible loans, outstanding at as 31 January 2016, decreased by the amount possibly funded in the first two TLTROs which took place in 2014 and not redeemed early. Eligible loans, as for the first series of transaction aimed at longer term refinancing (TLTRO I), were represented by disbursements executed in the Euro area in favour of families and non-financial enterprises, exclusive of residential mortgages. For the Group, the amount that could be financed taking account of the level of eligible loans as at the set date of 31 January 2016 was in aggregate equal to Euro 26 billion (Euro 19.7 billion net of the amount financed in the two prior TLTROs). As at the date of this Base Prospectus, refinancing transactions outstanding with the European Central Bank are: (i) TLTROs launched on 23 June 2016 with maturity on 26 September 2018, (ii) TLTRO II launched on 23 June 2016, with maturity on 24 June 2020 and (iii) TLTRO II launched on 21 September 2016, with maturity on 30 September 2020.

As at 31 December 2016, the Group's overall indebtedness to the ECB relating to refinancing transactions launched by the same Authority were equal to Euro 24,461 million, of which TLTROs were equal to a notional amount of Euro 16,907 million. As at 30 September 2017, the Group's overall indebtedness to the ECB was solely comprised of TLTROs, for a notional amount of Euro 16,907 million. The amount of cash and free assets eligible for ECB was equal, as at 31 December 2016, to Euro 6,870 million and Euro 21,068 million as at 30 September 2017. The amount of eligible free assets (expressing the assets recognised by the ECB to be eligible as collateral/guarantee for further financing transactions with the Central Bank, to the extent not committed by the Bank to other transactions) is mainly represented by government securities (Euro 3,174 million as at 31 December 2016 and Euro 11,033 million as at 30 September 2017).

The Bank expects to maintain access to TLTROs in compliance with the access criteria set by the ECB and related to the credit level granted thereby to the banking system. The TLTROs will continue to represent, in presence of financial instruments made available by the same European Central Bank, the main medium/long term exposure to the ECB. Uses of MROs (Main Refinancing Operation) launched on a weekly basis and used to manage short term liquidity, or other funding sources possibly made available by the ECB, may in any case take place for short-term liquidity management purposes, liquidity that may also be obtained by accessing the market through repo transactions.

In respect of the maturity of bond issues addressed to institutional investors, in financial year 2018, the Bank will have to deal with the redemption of an aggregate amount of Euro 3.856 billion (inclusive of Euro 2.9 billion notes with government guarantee sold in the market) while there are no maturities in 2017. The Bank has furthermore planned, subject to market conditions, to reschedule the bond loans soon due with new issuances for similar amounts.

In the first months of 2017, the Issuer also finalised three issuances of Italian state guaranteed liabilities, on the basis of Decree 237, for an aggregate nominal amount equal to Euro 11 billion and with maturity: on 20 January 2018, 25 January 2020 and 15 March 2020. Such liabilities have been fully subscribed for by the Bank, upon issuance, and subsequently in part placed on the market and, in part, used as collateral as guarantees of financing transactions. The guarantee granted by the Ministry of Economy and Finance on 13 January 2017 provides for BMPS's entitlement to carry out, up to 31 December 2017, an additional issuance of Italian state guaranteed notes, for a nominal value of Euro 4 billion and three year maturity.

It should be also noted that, although the Bank in the context of the Restructuring Plan provided for actions to cover for the aforementioned redemption needs, it cannot be excluded that such actions may never be executed – possibly due to factors outside the management's control – and that, accordingly, the need to repay outstanding exposures prior to the aforementioned maturity dates may cause tensions on the Group liquidity, generating an increased need for funding that may be obtained under more burdensome conditions, with consequent negative effects, even relevant, on the business and the economic, capital and/or financial condition of the Bank and/or the Group.

Finally, as at 30 September 2017, the Bank has domestic non-subordinated bond loans outstanding, for a nominal value equal to around Euro 174 million, which, based on the relating terms and conditions, provide for the possibility of investors disposing of the investment, negotiating such instruments at issue spread. Should the repurchase of such securities by the Group be significant, the same Group would have to deal with cash disbursements, with possible impacts on the Group's liquidity and consequent negative effects on the business and the economic, capital and/or financial condition of the Bank and/or the Group. Analogous risk exists with reference to the "Casaforte Classe A" notes, for an outstanding nominal value, as at 30 September 2017, equal to around Euro 114 million.

d) Reputational risk

In the first quarter of 2013, in addition to the persistence of a recessive macroeconomic scenario, the Group had to deal with an unfavourable context due to the media effect consequent to the "Alexandria", "Santorini" and "Nota Italia" structured transactions, proceedings linked to the purchase of Banca Antonveneta, as well as those undertaken against former representatives and representatives of the Bank. For more information on such legal proceedings reference is made to section "*Banca Monte dei Paschi S.p.A. – Legal Proceedings*", paragraphs "*Disputes related to criminal investigations and legal affairs in 2012 and 2013*" and "*Disputes arising from the Burden Sharing*" of this Base Prospectus and to the paragraph "*Risks deriving from judicial and administrative proceedings*" below.

Specifically, as a consequence of the negative media exposure, in the months of January and February 2013, the Group recorded negative net flows from direct deposit collections, which have by the way been recovered in the following months, to then incur further contractions in the last quarter of the financial year closed on 31 December 2014, subsequent, *inter alia*, to the negative media exposure consequent to the publication of the findings of the Comprehensive Assessment.

A contraction of direct deposit collections occurred in the first two months of 2016 as a consequence of the impact on the markets and customers of the entry into force of the bail-in regime , specifically significant in Italy also as a consequence of the interventions of the end of 2015 on shares and subordinated securities of Italian banks affected by the so called "Banks Aid Decree" and in December 2016 as a consequence of the failed realisation of the Bank's recapitalisation transaction.

It cannot be excluded that, in the future, also due to the possible negative media context, the Group may be subject to analogous pressures on its liquidity condition, with possible negative effects, even relevant, on the business and the economic, capital and/or financial condition of the Bank and/or the Group.

e) Risk associated with the downgrade of debt securities issued by the Italian State

The Group has significant exposures to sovereign debt securities and, in particular, to Italian public debt securities. Accordingly, a possible downgrading of the credit rating assigned to Italy (already subjected to a number of downgrades by the main rating agencies in the last years) may have a negative impact on the

liquidity and counterbalancing capacity of the Group, with possible repercussions on the business and the economic, capital and/or financial condition of the Bank and/or the Group.

The impact of the consequent downgrade of BMPS issuances guaranteed by the Italian State pursuant to Legislative Decree no. 237/2016 (which rating is aligned to that of the Italian State) would add on to this negative impact. Italian state guaranteed BMPS issuances in fact have the same rating as the Republic of Italy and, accordingly, in case of downgrade of the same Republic of Italy, would be correspondingly downgraded. Such event could determine a reduction in the price of securities, with the need to pay margins on funding transactions which BMPS has in place on such securities (repos), amounting to around a nominal amount of Euro 4.5 billion. Furthermore, a downgrade (in particular if especially severe) may induce counterparties of financing transactions (repos), to ask for the early termination, where provided for, or not to reschedule the maturity thereof.

f) Risk associated with internal systems to manage liquidity risk

The Group adopts a liquidity risk governance and management system that, in accordance with the provisions of the supervisory authorities, pursues the objective of insuring the solvability of the Group and all its subsidiaries, optimising the cost of funding, adopting and maintaining risk mitigation tools. In the context of the aforementioned system, the Issuer centralises the responsibility of:

- defining the Group's liquidity management policies and coordinating the implementation of such policies within the companies falling under the reference perimeter;
- governing the Group's short, medium and long term liquidity position, at consolidated and single subsidiaries level, through a centralised operational management; and
- controlling and monitoring liquidity risk for the Group and the single subsidiaries.

In its role as Bank, the Issuer therefore defines the criteria, policies, responsibilities, processes, limits and tools for the management of liquidity risk, both in conditions of the normal course of business and in stress and/or liquidity crisis conditions, formalising the "Liquidity Risk Framework", the "Funding Plan" and the "Contingency Funding Plan" for the Group.

Specifically, the "Liquidity Risk Framework" represents the full control and monitoring system of the Group's liquidity, comprehensive of the main risk measures and operational limits.

The "Funding Plan", represents the Group's funding needs, in its relevant sizes, taking into account the main maturities expected, external restrictions and intervention opportunities permitted by the regulatory and market framework, as well as the actions envisaged to deal with such needs. The "Contingency Funding Plan" defines the intervention strategies in case of extreme liquidity stress, providing for readily available procedures and actions to find funding sources in case of contingency.

In spite of the Group having set up such monitoring and management systems of its liquidity risk, the persisting negative market conditions and/or the worsening thereof, a negative performance of the economic scenario in general, possible further downgrades of the creditworthiness of the Bank and, more in general, the Bank's inability to raise in the market the necessary resources to deal with its liquidity needs and/or legislative requirements from time to time introduced in implementation of Basel III and CRD IV, may, on a collective or individual basis, have negative effects on the business and the economic, capital and/or financial condition of the Bank and/or the Group.

The "Funding Plan 2016" and the "Contingency Funding Plan 2016", approved by the Bank's board of directors, respectively on 5 February 2016 and 14 March 2016, were also sent to the Joint Supervisory Team of the ECB which, to date, has not released any observation nor required integrations to such documents.

Similarly, the "Funding Plan 2017" and the "Contingency Funding Plan 2017", approved by the board of directors of the Issuer respectively on 9 March 2017 and 12 April 2017, have been sent also to the Joint Supervisory Team of the ECB which, to date, expressed no observations nor requested any supplement to such documents.

To date, there are no any further observations or integration's requests coming from the ECB, with regard to the policy of the intraday liquidity management adopted by the Bank.

It cannot however be assured that the ECB will not require, at a later stage, further information or formalizations/corrective interventions, even substantial, on such plans determining a variation of the

modalities and composition of the Bank's envisaged funding sources and the relating costs.

It is furthermore provided that the "Funding Plan 2017" and the "Contingency Funding Plan 2017" may be subject to review by the Bank during 2017, and resubmitted to the board of directors of the Issuer, with subsequent submission also to the Joint Supervisory Team of the ECB.

Even in this case it cannot be assured that the ECB will not require formalizations/corrective interventions, even substantial, on such plans determining a variation of the modalities and composition of the Bank's envisaged funding sources and the relating costs.

Risks associated with the failed distribution of dividends

The ECB, in its decision of 25 November 2015, reconfirmed by its decision of 19 June 2017 (SREP Decision), specifically prohibited the Bank from proceeding with distributions of dividends to shareholders or holders of instruments computed in Additional Tier 1, unless such failed payment would constitute an event of default. Such prohibition is valid until the decision will be withdrawn; accordingly, until the ECB decides to remove this prohibition, the Issuer may not proceed with the distribution of dividends, although in the presence of profits for the period available for distribution.

Furthermore, among the commitments of the Restructuring Plan, it is provided that the Bank cannot proceed to the distribution of dividends, unless it occurs a CET1 and a Total Capital ratio higher than a predetermined level in respect of the SREP thresholds as set periodically by the ECB. For further information on the commitments provided for by the Restructuring Plan and the risk associated with, please see "*Risks associated with the failed realisation of the Restructuring Plan*" above.

In financial years 2016 and 2014, losses recorded and/or the absence of reserves available for distribution impacted on the Issuer's ability to distribute dividends. The economic results of such financial years have been impacted by events which, should they repeat themselves in future years, may – impede or limit the distribution of dividends even for such years, even if ECB prohibitions were to be withdrawn – with consequent negative effects on the return on the investments in the Issuer shares.

Furthermore, it has to be noted that, although in presence of profits available for distribution, the Bank of Italy recommended to all banks – taking account of ECB's recommendation of 28 January 2015, then superseded by ECB's recommendation of 17 December 2015 – the adoption of dividends distribution policies allowing to maintain – at individual and consolidated level – actual and perspective capital adequacy conditions in line with aggregate risks taken, suitable to favour the alignment to the prudential requirements set by the CRD IV and the CRR and to guarantee the coverage of internal capital levels calculated in the context of the ICAAP process.

The distribution of dividends may, furthermore, even in the future, be excluded or limited due to the need to comply with the capital requirements prescribed by provisions of law and/or regulations applicable to the Group or imposed by the supervisory authority.

Finally, it should be noted that even in case of extraordinary transactions in the context of which a significant increase in the number of the Bank's outstanding shares is provided for – such as the Capital Enhancement, the increased number of shares will determine, profits and/or distributed reserves being unchanged, a reduction in the ordinary dividend per share.

The Issuer may, furthermore, although in the presence of profits available for distribution for the period and in spite of the absence of prohibitions and/or legislative or regulatory restrictions, decide not to proceed with the distribution of dividends in favour of ordinary shareholders or to proceed with the distribution of dividends to a lower extent than the maximum available for distribution in accordance with the applicable legal and statutory provisions.

Risks associated with the Group's exposure to sovereign debt

The Group's overall exposure to central governments or other public entities, is almost entirely held vis-à-vis Italy, and is concentrated in the available for sale ("**AFS**") accounting category.

As at 30 September 2017, the Group's cash exposure to governments or other public entities both of European countries (EU and non-EU Area) and extra-European countries was equal to Euro 20,381 million (up compared to Euro 20,251 million as at 31 December 2016), almost entirely held vis-à-vis Italy (97.2 per cent. of the total figure) and mainly recognised in the AFS accounting category. Specifically, as at 30 September 2017, the book value of the Group's sovereign exposures represented by "debt securities" amounted to Euro

17,829 million (up compared to Euro 17,504 million as at 31 December 2016), almost entirely concentrated on Italy (for Euro 17,253 million, equal to 96.8 per cent. of the total figure) and with residual positions vis-à-vis other countries. Such debt securities are mainly recorded in the AFS accounting category (78.6 per cent.).

As at 30 September 2017, the residual term of the exposure to sovereign debt was equal to 3.72 years.

In detail, the exposure is represented by:

(i) loans to central and local governments and government agencies, equal to Euro 2,552 million as at 30 September 2017 (in terms of book value) and Euro 2,747 million as at 31 December 2016, fully represented by loans to the Italian state (exclusive of tax items). The above mentioned loans constitute 2.7 per cent. and 2.6 per cent. compared to the amount of loans to customers as at 30 September 2017 and 31 December 2016; and

(ii) debt securities issued by central and local governments for Euro 17,830 million as at 30 September 2017 and Euro 17,504 million as at 31 December 2016, of which Euro 17,800 million and Euro 17.467 million of EU country issuers. Such investments represent 70.2 per cent. and 67.5 per cent. of the total amount of the Group's cash financial assets classified in the financial assets held for trading and available for sale portfolios as at 30 September 2017 and 31 December 2016.

The impact of net financial revenues from debt securities issued by central governments on the Group's intermediation margin as at 30 September 2017 and 31 December 2016 is respectively equal to 5 per cent. and 5 per cent..

The Group was accordingly exposed, as at the single reference dates and on the aforementioned terms, to the movements in government securities in general and, in particular, in Italian public debt securities. The persisting tensions on the Government securities market or the volatility thereof may cause negative effects, even relevant, on the business and the economic, capital and/or financial condition of the Bank and/or the Group. Furthermore, a lowering of the creditworthiness of the Republic of Italy, together with a consequent decrease in the securities value, would cause a negative impact on the economic results in respect of the held for trading portfolio and possible negative impacts in terms of cost of funding of the positions held and of the Group's counterbalancing capacity; the higher impact caused by the decreased value of securities would furthermore give rise to an increased negative value of the AFS reserve.

In relation to the impact on own funds, it has to be noted that, contrary to what was possible in the past, starting from 1 October 2016, after the entering into force of ECB's Regulation (EU) 2016/445 of 14 March 2016 on the exercise of options and discretions provided for by the EU regime (ECB/2016/4), the possibility ceased to include in the calculation of own elements relating to Common Equity Tier 1 unrealised profits and losses relating to exposures to central administrations classified under "Financial assets available sale" (local sterilisation) where this treatment was applied prior to the entering into force of the CRR. As clarified by the Bank of Italy, after the entry into force of the aforementioned ECB Regulation, significant banks must include in, or deduct from, CET 1 Capital, respectively, unrealised profits and losses deriving from exposures to central administrations classified in the AFS portfolio in accordance with the percentages provided for in the transitional period: 60 per cent. for 2016 and 80 per cent. for 2017. Residual amounts after the application of such percentages (i.e. 40 per cent. for 2016 and 20 per cent. for 2017) are not computed for the purpose of the calculation of own funds, continuing to be subject to sterilisation. As at 30 September 2017, the impact on the Group's own funds deriving from the application of such sterilisation relating to the portion of unrealised profits and losses subject to phased-in is equal to around Euro +6 million (around Euro +13 million as at 31 December 2016).

On this matter, it should be further noted that, as of 31 December 2014, the ECB had asked the Issuer to consider in the calculation of capital ratios, the entire amount of the negative AFS reserve associated with government securities subject matter of the transaction called "Alexandria", closed by way of the settlement agreement dated 23 September 2015, hence removing the benefit deriving from the "national discretions" in force at the time.

The AFS reserve linked to the Italian government securities is sensitive both to the Republic of Italy credit spread and to interest rate fluctuations. In particular, the fair value sensitivity to the spread of the Republic of Italy recorded a negative value of Euro 5.76 million as at 30 September 2017 (down in absolute terms compared to a negative value of Euro 8.88 million as at 31 December 2016) due to a +1 basis point movement in the Italian credit curve, i.e. there is a positive effect on the AFS reserve in case the spread narrows. The sensitivity to interest rates was instead negative by Euro 2.15 million as at 30 September 2017 (negative by

Euro 3.94 million as at 31 December 2016) due to a +1 basis point movement in the rate curve so as there is a negative effect on the AFS reserve in case of increased interest rates.

Due to the aforementioned exposures, the Group recorded a negative AFS reserve (net of tax effect) equal to Euro 62.9 million as at 30 September 2017 (down compared to 31 December 2016 when it was negative by Euro 75.18 million), with deferred tax assets equal to Euro 31.7 million (compared to Euro 35.1 million as at 31 December 2016).

In the context of the 2016 SREP process, the ECB indicated, among weakness profiles/focus points, the significant sensitivity of the Italian Government securities portfolio to market variables, among which the credit spread, as well as the amount of the exposure, still deemed significant. In this respect, it has to be noted that the Issuer already realised a significant reduction of the exposure in government securities in line with the provisions of the Restructuring Plan 2013-2017 and it expects to realise a further progressive reduction in line with the provisions of the Restructuring Plan 2017-2021 as approved by the European Commission on 4 July. In fact, the undertaking given by the Bank in the context of the approval procedure of the Restructuring Plan 2013-2017 by the European Commission provided *inter alia*, for the reduction of the Italian government securities portfolio held in the AFS accounting category at a nominal value, taking account of the conclusion of the "Santorini" transaction occurred in December 2013 and of the "Alexandria" transaction occurred in September 2015, of Euro 14 billion at the end of 2017. It should be noted that the AFS government securities portfolio being equal to around Euro 12.9 billion as at 30 September 2017, (compared to Euro 13.8 billion as at 31 December 2016) is already in line with the level required for the end of 2017 (Euro 14 billion). Should the Bank not be able to maintain the reduction of the Italian Government securities portfolio already realised and to comply with the further reduction request provided for in the commitment linked to the Restructuring Plan 2017-2021, being forced to assign Italian government securities also in unfavourable market conditions, this could entail negative effects on the business and the economic, capital and/or financial condition of the Bank and/or the Group, and the infringement procedure for failed compliance with the commitments linked to the Restructuring Plan 2017-2021 could be activated by the Directorate General Competition. For more information on the risks associated with the failed realisation of the Restructuring Plan, reference is made to "*Risks associated with the failed realisation of the Restructuring Plan*" above.

Loans granted by the Group to central governments and other public entities shall be added to sovereign exposures in debt securities. Among those, attention shall be paid to loans granted in favour of the Italian State and other Italian local entities for Euro 2,552 million as at 30 September 2017 (down compared to Euro 2,747 million recorded as at 31 December 2016). The possible deterioration of the creditworthiness of such counterparties may lead to write-downs, even significant, for such type of clients, according to current Italian credit evaluation policies and, therefore, may give rise to negative effects, even relevant, on the business and the economic, capital and/or financial condition of the Bank and/or the Group.

In addition to the aforementioned exposures, the Group recorded an exposure to credit derivatives, expressed in terms of net protection sales, for a nominal value of Euro 1,768 million as at 30 September 2017, down compared to Euro 2,063 million recorded as at 31 December 2016. This exposure almost exclusively refers to the Republic of Italy. The possible deterioration of the creditworthiness of Italy and, to a lesser extent, that of the other countries to which the Group is exposed, as well as movements in interest rates may cause a reduction of the value of securities and/or derivatives, with consequent negative effects, even relevant, on the business and the economic, capital and/or financial condition of the Bank and/or the Group.

Risks deriving from judicial and administrative proceedings

As at the date of this Base Prospectus, a number of judicial proceedings (including civil, criminal and administrative actions) are pending against the Issuer. Some of these derive from the extraordinary and exceptional context related to criminal investigations ordered by courts involving the Issuer in 2012 and 2013. In addition to this litigation, there are also (i) disputes deriving from the Bank's ordinary course of business, (ii) labour disputes, (iii) tax disputes and (iv) disputes arising from the Burden Sharing. As at the date of the Base Prospectus, no mis-selling actions have been brought against the Bank by the holders of UT2 Notes, object of the conversion within the Burden Sharing context.

The overall *petitum* of civil disputes to which the Group is a party as at 30 September 2017 was equal to Euro 4,419.8 million — of which around Euro 4,147.5 million arising from the conduction of ordinary business — to which around Euro 272.3 million for civil disputes related to the proceedings brought by shareholders in the context of the 2008, 2011, 2014 and 2015 capital increases shall be added (for further information, please see section "*Banca Monte dei Paschi S.p.A. – Legal Proceedings*", respectively, paragraph "*Disputes deriving*

from ordinary business" and "*Civil actions instituted by shareholders in the context of the 2008, 2011, 2014 and 2015 capital increases*" below).

The overall *petitum* for tax disputes was equal to around Euro 130 million for levies and sanctions, while the *petitum* relating to labour disputes was equal to around Euro 119 million (inclusive also of 6 legal proceedings initiated by the current 37 employees of Fruendo S.r.l. and described in section "*Banca Monte dei Paschi S.p.A. – Legal Proceedings – Labour disputes*" below).

In light of the estimates made on the risks of adverse outcome in the aforementioned proceedings, as at 30 September 2017, "legal disputes" included under item provision for risks and charges, amounted to Euro 569.4 million, comprised of claw-backs for Euro 74.7 million and civil disputes for Euro 494.7 million of which 478 million deriving from judicial proceedings associated with ordinary business. Furthermore, as at the same date, the provision for risks and charges includes tax disputes for Euro 18.5 million and labour disputes for Euro 49.3 million.

Allocations to item provision for risks and charges have been made for amounts representing the best possible estimate relating to each dispute, quantified with sufficient reasonableness and, in any case, in accordance with the criteria set forth in the Issuer's policies. Included among the components of the overall provision for risks and charges are, in addition to the allocations provided for "legal disputes", also allocations versus expected losses on estimated disbursements for client complaints. The estimate of liabilities is based on the information available from time to time and in any case it implies multiple and significant evaluation elements, due to the several uncertainty factors characterising the different judicial proceedings. In particular, sometimes it is not possible to produce a reliable estimate such as – for instance and without limitation – in case proceedings have not been initiated, in case of possible counterclaims or in the presence of uncertainties in law or in fact so as to make any estimate unreliable. Accordingly, although the Bank believes the overall provision for risks and charges recorded in the financial statement to be considered adequate in respect of the liabilities potentially consequent to negative effects, if any, of the aforementioned disputes, it may occur that the provision, if any, may be insufficient to fully cover for the charges, expenses, sanctions and compensation and restitution requests associated with the pending proceedings, also in relation to the bringing of civil actions, or that the Group may in the future be called to satisfy compensation and restitution costs and obligations not covered by provisions, with possible negative effects on the business and the economic, capital and/or financial condition of the Bank and/or the Group.

In relation to disputes in which the Bank is involved, it has to be specified that, as at the date of the Base Prospectus, it cannot be excluded that disputes against the Bank may increase in number, also in consideration of the criminal proceedings pending before the Courts of Milan as well as the extraordinary transactions put in place by the Bank, in particular in relation to the civil plaintiffs in the context of such proceedings (for more information, reference is made to the paragraph (c) below).

Unfavourable outcomes, if any, for the Bank of the disputes it is a party to – specifically those with larger media impact – or the arising of new disputes, may have negative impacts, even significant, on the Bank and/or the Group, with consequent possible negative effects on the business and the economic, capital and/or financial condition thereof.

(a) Risks deriving from criminal and administrative disputes linked to criminal investigations and judicial affairs in 2012 and 2013

A part of the judicial proceedings – for the detailed information of which reference is made to section "*Banca Monte dei Paschi S.p.A. – Legal Proceedings – Criminal investigations and proceedings*" – has its source in an extraordinary and exceptional context also linked to the criminal investigations initiated by public prosecutors and the judicial affairs which concerned the Issuer in the years 2012 and 2013 and which mainly refer to the financial transactions for finding the necessary resources to acquire Banca Antonveneta as well as to some financial transactions carried out by the Bank, (among which the transactions associated with the restructurings of the "Santorini" transaction, the "Alexandria" notes and the FRESH 2008 transaction).

(a1) Risks deriving from disputes initiated against former representatives and representatives of the Bank

In relation to the transaction associated with the restructuring of the "Alexandria" notes, as a result of the serving, on 3 April 2015, of the closing measure of preliminary investigations pursuant to and to the effects of art. 415-*bis* c.p.c., the Public Prosecutor's office at the Courts of Milan filed – in relation to the disclosure relating to financial year 2009 – an indictment request against Mr. Mussari, Mr. Vigni and Mr. Baldassarri and

two members of the management of Nomura in respect of the offences under art. 2622, paragraphs 1 and 3 of the Italian Civil Code in the matter of false corporate communications and under art. 185 of the Consolidated Finance Act in the matter of market manipulation, committed in association among them with a conduct relevant for the purpose of art. 3 and art. 4, paragraph 1, of Law 146/2006 in the matter of transnational crimes. With the subsequent measure of 13 January 2016, the Public Prosecutor at the Courts of Milan also ordered the serving on the Bank and the other suspects of the closing of preliminary investigations notice pursuant to and to the effects of art. 415-*bis* c.p.p. concerning the other investigation strands relating to "FRESH 2008", "Alexandria", "Santorini" and "Chianti Classico" transactions; these criminal proceedings were combined with those under the above paragraph for the crimes referred to in financial year 2009.

In respect of crimes committed by individuals in the above proceedings, the Public Prosecutor also requested the indictment of the Issuer for administrative offences under art. 25-*ter* lett. b), 25-*ter* lett. s) and 25-*sexies* of Legislative Decree no. 231/2001 consequent to the charging of false corporate communications (art. 2622 of the Italian Civil Code), obstruction to the exercise of functions of public supervisory authorities (art. 2638 of the Italian Civil Code) and market manipulation (art. 185 of the Consolidated Finance Act).

In this respect it has to be specified that, with the consent of the Public Prosecutor's Office, on 2 July 2016, Banca Monte dei Paschi di Siena filed a plea bargaining request in the criminal proceeding pending before the Milan Public Hearing Judge ("**PHJ**"), in respect of the charges to the Bank pursuant to Legislative Decree no. 231/2001 in the matter of offence based administrative liability of entities. The predicate offences of the Bank's administrate liability concern cases of false corporate communications, market abuse and obstruction to supervision and are exclusively charged to the former administered management for the period between 2009 and 2012. With the plea bargaining request, granted by the Milan PHJ on 14 October 2016 with application of the penalty agreed upon, the Bank exited the proceedings relating to the administrative offence consequent to the crimes committed by its former top managers, limiting the consequences to a monetary administrative sanction of Euro 600,000 and a confiscation of Euro 10 million.

On 1 October 2016, the PHJ ordered the indictment of defendants other than the Bank. At the hearing of 15 December 2016 before the second criminal section of the Courts of Milan, subsequent to the request as civilly liable parties of the Banks MPS, Nomura, Deutsche Bank, around 1500 civil plaintiffs served on the Bank the civilly liable summons in respect of the crimes charged to indicted former directors and managers.

In the course of the proceedings, with the order of 6 April 2017, the Courts of Milan ruled on the exclusion request of civil plaintiffs filed by defendants and civilly liable parties, excluding certain civil plaintiffs.

The bringing of civil action by the Bank against Giuseppe Mussari, Antonio Vigni, Daniele Pirondini and Gian Luca Baldassarri was also dismissed on the assumption of a Bank's liability for complicity with the defendants. To date, civil plaintiffs appearing against the Bank are around 1250.

(a2) Risk deriving from dispute against former representatives charged with the crimes of false corporate communications and market manipulation

On 12 May 2017, the indictment of representatives Alessandro Profumo, Viola Fabrizio and Salvadori Paolo (the former ones no longer in office) has been requested in the context of new criminal proceedings before the Courts of Milan where the former representatives are charged with the crimes of false corporate communications (art. 2622 of the Italian Civil Code), with respect to the accounting of the "Santorini" and "Alexandria" transactions in relation to the Bank's financial statements, reports and others corporate communications of the Bank from 31 December 2012 to 31 December 2014 and in relation to the six-month report as at 30 June 2015, as well as of market manipulation (art. 185 of the Consolidated Finance Act) in relation to communications direct to the investors concerned the approval of financial statements aforementioned.

In respect of these proceedings, where the Bank is identified as the offended party, the first hearing was held on 5 July 2017, during which some hundreds of individuals and some category associations asked to appear as civil plaintiffs. The PHJ deferred the case to 29 September 2017, for the decision on the requests, as well as for the combination with the proceedings pending against BMPS, as accused party pursuant to Legislative Decree no. 231/01 for the same events charged today to Mr. Profumo, Mr. Viola and Mr. Salvadori. At the hearing of 29 September 2017, 304 requests for joinders set forth by the civil parties have been upheld (on a total of 337). The other parties have been excluded for formal defects. At such hearing, the proceeding pending against the Bank, as liable pursuant to the Legislative Decree 231/2001, has been combined with the proceeding pending against the natural persons. The judge has admitted the subpoena of the Bank as civilly liable, deferring to the hearings of 10 November 2017 and 24 November 2017 to allow the implementation of

the relevant notifications. Another connected criminal proceeding, before the Milan prosecutor and still in the conclusion of the preliminary investigations phase, is pending instead only against Mr. Profumo and Mr. Viola charged with an hypothesis of obstacle to the exercise of the public supervisory functions (art. 2638 of the Italian Civil Code), with regard to significant missing information useful to solve the accounting issue of the "Santorini" and "Alexandria" transactions. Such proceeding is pending also against BMPS for the relevant administrative offence.

Among the no. 304 civil parties admitted, no. 294 served the writ of summon upon the Bank as civilly liable. At the hearing held on 10 November 2017, wherein the Bank appeared as civilly liable, Mr. Salvadori's attorney has argued that the request for the referral of the trial for his client is null and void, as his imputability could have been given only for the crime under the article 2622 of the Italian Civil Code and not for the crime under the article 185 of the Consolidated Finance Act. Relating to such point, the same attorney has also claimed the lack of competence of the Milan judicial authority. The public prosecutor – while it has objected the territorial competence matter – has agreed with the assumption relating to the voidance request as argued by Mr Salvadori's attorney who, at this point, required the transmission to his office of the entire proceeding – instead of Mr. Salvadori only – in order to avoid any fragmentation and for the purpose of restarting such proceedings as a single proceeding. The PHJ reserved his decision thereon, which will be issued at the next hearing set on 24 November 2017. Should the decision reject the request, the hearing will continue with the discussion among the parties on 1, 15 and 22 December.

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In relation to the aforementioned risks under points (a1) and (a2) above, investors must take into account that, as at the date of the Base Prospectus, a precise monetary figure relating to the total of compensatory requests and accordingly the economic burden the Bank will have to bear cannot be predicted, since many civil plaintiffs' requests are not quantified and such quantification shall wait for the development of the proceedings. Furthermore, there is the risk that, should the Bank and/or other Group companies or their representatives (even former) be convicted after the established violation of criminally relevant provisions, such circumstance may have impacts under a reputational point of view for the Bank and/or the Group, as well as entail a liability under the Legislative Decree 231/2001.For further information, reference is made to "*Risks associated with the organisation and management model pursuant to Legislative Decree 231/2001*" below.

(a3) Risks deriving from sanctioning procedures

Also some sanctioning proceedings initiated by supervisory authorities mainly against the management in office at the time of events (in relation to which, in case sanctions are imposed, the Bank is jointly liable and has no certainty to be able to recover any amount paid due to such joint obligation after the enforcement of its right of recourse), as well as against the Bank also pursuant to art. 187-*quinquies* of the Consolidated Finance Act, as well as some legal actions initiated against the Bank by consumer associations and individual investors which subscribed for financial instruments in the context of the share issuances carried out by the Bank, are to be referred to such events (for more information on such sanctioning procedures, reference is made to section "*Banca Monte dei Paschi S.p.A. – Legal Proceedings*" paragraphs "*Bank of Italy sanctioning procedures*" and "*CONSOB's sanctioning procedure*" below)

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Furthermore, it should be noted that the Foundation initiated two autonomous proceedings, on one side, against Mr. Mussari, Mr. Vigni and Nomura and, on the other side, against Mr. Vigni and Deutsche Bank, based in both cases on the purported liability of the defendants under art. 2395 of the Italian Civil Code for the direct damage allegedly suffered by the MPS Foundation for having subscribed the BMPS capital increase resolved in the course of 2011 at a different price than the one at which it would have been correct to subscribe it in case the "Alexandria" and "Santorini" restructurings had been duly represented in the BMPS financial statement.

The Issuer has been sued in such proceedings: (i) by Mr. Vigni by virtue of an indemnity undertaking (in respect of third party claims) allegedly given by the Bank in his favour in the context of the mutual termination agreement of the managerial relationship; (ii) by Mr. Mussari, by virtue of the Bank's liability under art. 2049 of the Italian Civil Code, for the actions of a number of managers allegedly accountable for the transaction carried out with Nomura.

It should be also noted that, also as a consequence of the aforementioned investigations initiated by judges in 2012 and of the aforementioned proceedings, further criminal, sanctioning and civil proceedings have been

initiated by judges, supervisory authorities, consumer associations, investors and the Bank itself. The Bank's position in respect of such proceedings is aligned to the principles of business and managerial discontinuity which inspired the actions undertaken by the new management, aimed at identifying the best initiatives in protection of the Bank, the assets and the image thereof, even through direct legal actions against the former top management and counterparties involved.

(b) Risks deriving from civil disputes initiated by investors and/or shareholders of the Bank

Amongst the sanctioning procedures abovementioned under the paragraph (a3), with respect to the prospectuses relating to the capital increases executed respectively in financial years 2008 and 2011, CONSOB, with resolutions no. 18885 of 17 April 2014 and no. 18886 of 18 April 2014 respectively, closed the sanctioning proceedings initiated for possible irregularities in drawing up such documents, imposing pecuniary administrative sanctions against the directors and statutory auditors *pro tempore* for an overall amount equal to Euro 1,150 million. The Bank did not appeal any of the two measures and it proceeded with the payment of the sanctions in its capacity as joint obligor, initiating the activities preparatory to the exercise of its right of recourse. Upon analogous allegations basis to those charged in the two aforementioned sanctioning proceedings, CONSOB, with resolution no. 18924 of 21 May 2014, also closed the sanctioning proceedings for irregularities in drawing up bond loan and certificate prospectuses published by the Issuer in the period 2008-2012, imposing monetary administrative sanctions for an overall amount equal to Euro 750.000 to the Bank's directors and statutory auditors *pro tempore* (for more information on such sanctioning procedures, reference is made to section "*Banca Monte dei Paschi S.p.A. – Legal Proceedings – CONSOB's sanctioning procedure*" below).

In this respect, amongst the initiatives against the Issuer, some investors and/or shareholders of the Bank initiated actions aimed at obtaining the compensation for alleged damages suffered by the same subjects due to the alleged inaccuracy of the disclosure provided by the Issuer in the context of the 2008, 2011, 2014 and 2015 capital increase transactions and, in any case, due to the assumed unfairness of the price sensitive information provided from 2008 to 2015. As at the date of the Base Prospectus, 17 proceedings with compensatory aims have been initiated before the Court of Siena, Bari, Milan, Florence. In such claims, the plaintiffs mainly act for the declaration of the Bank's liability pursuant to article 94 of the Consolidated Finance Act, as well as for the cancellation of the capital increases' subscription agreement because of wilful and/or essential error pursuant to the Italian Civil Code. As at the same date, the overall *petitum* for such actions is equal to around Euro 272.3 million of which 226.1 million referred to three principal actions.

Furthermore, as at the date of the Base Prospectus, various complaints have been filed individually by investors – through consumers or legal associations – 69 of which, on a total amount of 735, have taken part into the claim initiated by Marangoni Arnaldo (as described under the section "*Banca Monte dei Paschi S.p.A. – Legal Proceedings – Civil actions instituted by shareholders in the context of the 2008, 2011, 2014 and 2015 capital increases*") – for a total of around Euro 651 million of claimed amounts, where quantified, associated with alleged losses incurred linked to the facts abovementioned. Of such requests, around 10 per cent. turned into civil judicial initiatives (in the great majority with intervention in the proceedings initiated by one single shareholder).

Such requests – individually or collectively – although heterogeneous, are mainly reasoned with generic references to the alleged infringement, by the Bank, of the sector legislation in the matter of disclosure and, accordingly, rebutted by the Bank since generic, ungrounded, and unsupported by suitable documental evidences and in some instances time barred. The residual *petitum* claimed by complainants who did not initiate judicial proceedings is equal to around Euro 589 million.

Actions exercised by investors – concerning allegedly false prospectuses and/or allegedly inaccurate information, on which subscribers' investment decisions were based – may increase, even significantly, both by number and amount of compensatory requests, compared to those pending as at the date of the Base Prospectus. Furthermore, it cannot be excluded that the number of complaints concerning the above described cases may increase – even significantly – or that already filed complaints would turn into true and proper disputes before judicial authorities. Finally, it has to be deemed that an increased number of disputes and/or complaints may occur also as a consequence of the evolution of criminal proceedings initiated after judicial investigations initiated during 2012 and of the Bank's involvement as a civilly liable party, in the context of such proceedings, pending before the Courts of Milan as specified below.

The possible adverse outcome in such proceedings, as well as the initiation of new proceedings and/or increased compensatory requests may have negative effects, even material, on the business and the economic, capital and/or financial condition of the Bank and/or the Group. Furthermore such adverse outcomes, if any, or

the arising of new disputes may have reputational impacts even significant on the Bank and/or the Group, with consequent possible negative effects on the business and the economic, capital and/or financial condition thereof.

For the sake of completeness, it should be noted that as at the date of this Base Prospectus, the Bank has recently been served with a writ of summons by which Alken Fund SICAV and Alken Luxembourg SA filed a suit before the Court of Milan against the Issuer, Nomura International, Giuseppe Mussari, Antonio Vigni, Alessandro Profumo, Fabrizio Viola and Paolo Salvadori for the purposes of claiming damages deriving from losses allegedly incurred following the investments carried out by the abovementioned funds relating to the purchase of BMPS' shares on the secondary market and the subscription of BMPS' 2014 and 2015 capital increases from January 2012 to September 2016 when the abovementioned funds liquidated entirely their positions thereof. Subsequently, the plaintiffs claim damages of at least Euro 434 million in relation to the allegedly false and misleading information associated with the erroneous accounting treatments of "Alexandria" and "Santorini" transactions as contained in the public financial information and financial statements, as well as into the prospectuses relating to 2014 and 2015 capital increases. The Issuer has been claimed liable pursuant to article 94 of the Consolidated Financial Act, in addition to the actions of the abovementioned directors and statutory auditors pursuant to the article 2049 of the Italian Civil Code. In this respect the Bank is evaluating, with the assistance of its lawyers, the line of defense which seems the more appropriate and the related actions.

(c) Risks associated with disputes and administrative proceedings deriving from the conduct of ordinary business

As at 30 September 2017, the overall *petitum* of disputes deriving from the conduct of the Group's ordinary business is equal to Euro 4,147.5 million. In light of the estimates made about the risk of unfavourable outcome in the cases under this paragraph, as at 30 September 2017, allocations for legal disputes – with respect to the disputes deriving from the ordinary business — have been made to the provision for risks and charges equal to Euro 478 million.

While carrying out its ordinary business, the Group is involved in various judicial proceedings concerning, *inter alia*: claw-back actions, compound interests, placement of bond securities issued by countries and companies then defaulted and the placement of other financial instruments and products. With specific reference to the placement of bond securities issued by countries and companies then defaulted and placement of schemes and financial products please note that they show a consistent overall decrease and that they are not material in terms of *petitum* and related civil funds.

For a more detailed description of the disputes deriving from the conduction of ordinary business, reference is made to "*Banca Monte dei Paschi S.p.A. – Legal Proceedings – Disputes deriving from ordinary business*".

(d) Risk deriving from sanctioning procedures promoted by the authorities

While carrying out its ordinary business, the Group is, furthermore, subject to inspections promoted by the supervisory authorities that may give rise to requests of organisational interventions and enhancement of safeguards aimed at remedying deficiencies, if any, found. The extent of such deficiencies, furthermore, may determine the beginning of sanctioning proceedings against the company's representatives and employees. Specifically, failed performance of the requests of the supervisory authorities may entail further disputes and investigations and submit the Group to compensatory requests, fines imposed by supervisory authorities, other sanctions and/or reputational damage.

Sanctioning proceedings initiated by supervisory authorities in respect of ordinary business, some of which also against some members of the current management, are listed under section "*Banca Monte dei Paschi S.p.A. – Legal Proceedings – Sanctioning procedures*" of this Base Prospectus.]

In particular, it has to be underlined that the procedure I794 – commenced by the Italian antitrust authority (*Autorità Garante della Concorrenza e del Mercato,* hereinafter, the "**AGCM**") against the Italian banking association (*Associazione Bancaria Italiana*) in respect of the remuneration of the SEDA service and subsequently extended to the eleven most important Italian banks, among which BMPS, concerning the alleged materiality of the interbank agreement for the remuneration of the SEDA service as agreement restricting competition pursuant to art. 101 of the Treaty on the Functioning of the European Union (according to AGCM the agreement would imply "the absence of any competitive pressure", with consequent possible increase in overall prices to be borne by enterprises, which may be in turn charged to consumers) – was also closed.

The procedure was closed with the AGCM measure of 28 April 2017, notified on 15 May 2017. The authority resolved (i) that the parties (including BMPS) have put in place an agreement restricting competition, in breach of art. 101 of the Treaty on the Functioning of the European Union, (ii) that the same parties should cease the conduct in place and file a report illustrating the measures adopted to procure the ceasing of the infringement by 1 January 2018 and should refrain in the future form putting in place similar behaviours, and (iii) that by reason of the non-seriousness of the infringement, also in respect of the legislative and economic framework in which it has been implemented, no sanctions are applied.

BMPS challenged the measure under examination before the regional administrative court (TAR), for the purpose of obtaining the cancellation thereof, since the authority, although not imposing sanctions, had on one side established the existence of an agreement restricting competition (with related consequent exposure to the risk of compensatory requests by those deeming to have been damaged from such conduct), on the other side, substantially imposed the adoption of a remuneration model imposing an adjustment economic cost and a likely lower income for the Bank itself. The complaint has been deposited and notified and the date of the hearing is still awaited. Nevertheless, such challenge does not suspend the measures implementation provided for by the authority.

It should be further noted that with the measure of 25 January 2017, the AGCM opened proceedings PS 10678 against Diamond Private Investment S.p.A. ("**DPI**") for two infringements of the Consumer Code (Legislative Decree 206/05) in the sale thereby of investment diamonds. The proceedings have been extended, with measure of 27 April 2017, to BMPS and another bank. With communication of 26 July 2017, the AGCM deemed BMPS and the other bank involved in the proceedings not chargeable for one of the two infringements; against BMPS, therefore, the proceeding continued only with regard to the residual infringement related to the low transparency of the contractual and commercial documentation. On 30 October 2017, by the measure conducting such proceeding, the authority recognised the occurrence of an unfair commercial practice under Legislative Decree 206/05 and, consequently, ordered sanctions for all parties involved therein; BMPS has been charged with a sanction of Euro 2 million. The Bank is carrying on the challenge against such measure in front of the administrative regional court (TAR Lazio), provided that the payment deriving from such measure will be executed by 30 days as set thereon, making use of a fund risk set out in advance for this specific purpose.

BMPS has in place with DPI a reporting agreement and AGCM deemed the same to have carried out an active role in the promotion and sale activity of investment diamonds. In respect of these proceedings it cannot be excluded that AGCM may convict the Bank to a pecuniary administrative sanction, should the infringement charged be established, with a possible negative reputational impacts on the Bank business and that disputes may be brought against the Bank itself by the clients deeming the Bank accountable for the damages allegedly caused by DPI, being the latter connected to BMPS through the reporting agreement. With respect to such procedure, as at the date of the Base Prospectus, the Bank effected allocations for an amount deemed adequate relating to the associated sanctioning risk, although it holds its activities to be correct and, in any case, reserving to challenge any sanctioning measure.

For more information on such sanctioning procedures promoted by the AGCM, reference is made to "*Banca Monte dei Paschi S.p.A. – Legal Proceedings – Sanctioning procedures*" paragraphs "*Competition and Market Authority ("AGCM") Proceedings I794 of the AGCM – Remuneration of the SEDA service*" and "*Proceedings PS 10678 of the AGCM – Violations of the Consumer Code in the sale of investment diamonds*" below.

Risks associated with Term Structured Repo transactions and specifically the transaction called "Alexandria"

In the past financial years, the Bank has put in place investment transactions on long term BTPs, financed through Term Structured Repos and rate risk hedging transaction through interest rate swaps. Specifically, the two transactions falling within such category are the transaction called "Alexandria", carried out with Nomura as a counterparty and the transaction called "Santorini", carried out with Deutsche Bank as counterparty.

In December 2013, the "Santorini" transaction was the subject matter of a settlement agreement which involved the closing thereof, while in relation to the "Alexandria" transaction, on 23 September 2015, the Issuer and Nomura entered into an agreement governing the terms of the early closing of transactions, put in place in 2009, concerning an investment in asset swaps BTPs with maturity in 2034, for a nominal value of Euro 3.050 billion, financed through a Long Term Repo of equal maturity.

The Issuer, as at 30 September 2015, having carried out all appropriate in depth analyses with its accounting consultants, recognised both aforementioned Term Structured Repo transactions in its financial statement

taking account of the single contractual components, in consideration of the operational modalities with which they have been carried out and the economic purposes pursued thereby. It has therefore been deemed that conditions were not satisfied to represent them under an accounting standpoint as credit default swap.

The accounting recognition modalities of the aforementioned Term Structured Repo transactions and the relating disclosure have been subject of analysis by the three supervisory authorities in the joint Bank of Italy/CONSOB/IVASS Document no. 6 of 8 March 2013. In compliance with such documents and being transactions of a significant amount, the Group described in detail in the financial statements as at 31 December 2012, through prospectuses drafted for the purpose of taking account of such alternative accounting method, the impacts on the financial statements which would derive from the requalification of transactions as synthetic derivatives. Subsequently, in respect of the specific request received from CONSOB on 10 December 2013, the Bank provided, in the report and financial statement 2013, report and financial statement 2014 and until the interim financial report 2015, updated consolidated prospectuses restated for the purpose of showing the effects of the adjustments and reclassifications deriving from the recognition as synthetic derivatives of the relevant term structured repo transactions.

It has to be noted that such transactions' recognition has been the subject matter of in-depth analysis by CONSOB also in light of the closing measure of preliminary investigations issued pursuant to article 415-*bis* c.p.p. by the Public Prosecutor's office at the Courts of Milan. To this end, until the early closing of the transaction occurred on 23 September 2015, the "Alexandria" transaction has been recognised at "open balances"; furthermore, through specific pro-forma information, the Bank described the impacts on the financial statements which would have been derived from the requalification of transactions as synthetic derivatives.

With resolution no. 19459 of 11 December 2015, and after completing its investigation, CONSOB found that the consolidated and individual financial statements for 2014 and the semi-annual report as at 30 June 2015 were not compliant with the rules governing the drafting thereof, namely the application of IAS 1, IAS 34 and IAS 39 with exclusive reference to the accounting recognition ("at open balances" or "at closed balances") of the items referring to the "Alexandria" transaction, which were closed by means of the entering into of a specific settlement agreement executed between the Bank and Nomura on 23 September 2015.

As a consequence of the above, CONSOB asked the Bank to publicly disclose information on the accounting treatment of transactions, the observations expressed by the authority in this respect, as well as the effects of the correct application of accounting criteria. To address this request, the Bank published a press release on 16 December 2015, which may be seen on the website www.gruppomps.it and which contains the requested information.

The Bank, although confirming the validity of the accounting choices made on occasion of the restatement in 2012 and subsequent financial years, given the framework *pro tempore* available, was deemed to comply with the indications of the supervisory authority contained in the aforementioned resolution and, hence, adopted the content thereof, including in the context of the drafting the financial statement closed as at 31 December 2015 the restatement pursuant to IAS 8, retrospectively reflecting in such financial statement the accounting recognition of the Alexandria transaction adapting it to that of a credit default swap.

It should be noted that, as a consequence of such restatement, the investors, as already occurred in some cases, may hold that purchases (or subscriptions) of financial instruments issued by the Bank prior to 16 December 2015 were based on an irregular disclosure framework, demanding the Bank for the compensation *in thesis* suffered for such reason. It has to be further noted that (as already stated in such cases by the Bank in trial) the prospectuses connected to capital increases set in the financial years 2014 and 2015 included, among the risk factors, a specific disclaimer associated with the possibility that CONSOB ordered the Bank to change the accounting criteria in respect of such operations.

For further information on the disputes originated from the transactions at hand, reference is made to "*Banca Monte dei Paschi S.p.A. – Legal Proceedings – Disputes related to criminal investigations and legal affairs in 2012 and 2013*" of this Base Prospectus.

The Bank deemed the assertions expressed by such association (also taken into account tone and expression used) ungrounded and unfairly prejudicial to its reputation, to the extent that they have become the subject matter of the above mentioned compensatory action, still pending before the Court of Rome.

Risk associated with the existence of over the counter derivatives in the Issuer portfolio

The Group negotiates derivative contracts on various types of underlying, such as debt securities and interest rates, equity securities and share indices, currencies and gold and other underlying, both with retail clients and institutional counterparties.

As at 31 December 2016, the Group's exposure to over the counter ("**OTC**") traded credit and financial derivatives with any counterparty (institutional, retail, etc.) and regardless of the reference portfolio (trading or banking) in terms of positive fair value, gross of netting arrangements, amounted to Euro 5,786 million, down compared to Euro 6,286 million as at 31 December 2015.

As at 30 September 2017, the Group's exposure recorded a decrease of 15.1 per cent. compared to 31 December 2016, levelling at Euro 4,879 million; as at the same date the impact of hedging derivatives included in the banking portfolio compared to those included in the supervisory trading portfolio is equal to 6.5 per cent..

The OTC derivative portfolio shows no specific illiquidity risk profiles and is substantially concentrated and fully comprised within level 2 of the fair value hierarchy.

OTC derivatives operations provide for the Group, in the first place, to assume market risks, namely the potential loss that may be recorded on positions held as a result of unfavourable movements in market parameters. The main risk factors to which such operations are subject are: interest rates, exchange rates, indices, commodities and the relating volatilities and correlations. Contextually, such operations expose the Group even to counterparty risks, namely the risk for the counterparty of a transaction, concerning certain financial instruments, to default before the settlement of the transaction. This may determine potential losses in case the financial instrument, at the time of the counterparty default, should have a positive value for the Group that, accordingly, would entitle it to a credit claim against the counterparty.

Risks associated with possible aggregations

The possible aggregation with another institution depends, inter alia, on external factors which, as such, are for the great part outside the total control of the Bank and are accordingly not envisaged in the Restructuring Plan.

The occurrence of an aggregation transaction depends, *inter alia*, upon external factors such as: the receipt of expressions of interest by counterparties interested in an acquisition or integration with the Group, the identity of interests between the Group and potentially interested parties, the positive outcome of any due diligence exercise by the Bank and/or the counterparty, the favourable vote by the Bank's shareholders and interested parties, where required, and the positive conclusion of the procedures required by the applicable legislation (including, specifically, approvals by EU, national and/or foreign competent supervisory authorities, which may even impose restrictions or conditions on the aggregation, including possible discontinuation of business areas or branches of the Bank).

Moreover, according to the commitments set out in the Restructuring Plan, the Bank may not proceed with the acquisition of any interest or asset, unless (a) the European Commission authorises said acquisition in exceptional circumstances demanding for financial soundness to be restored or competition to be assured, (b) the acquisition does not exceed certain thresholds in terms of price, and (c) such acquisitions are put in place in the context of the ordinary banking business in respect of the management of obligations already outstanding towards customers showing financial difficulties or provided for in the context of the same Restructuring Plan. The need to comply with such commitments and the consequent limitations to the Bank's activities may adversely affect the chances that the Bank may carry out any aggregation transactions. For more information on the commitments and on the risks associated with the failure to implement the Restructuring Plan, please refer to "*Risks associated with the failed realisation of the Restructuring Plan*" above.

Should the opportunity for the Bank to proceed with a possible aggregation with another institution materialise, such transaction would expose the Bank to the risks and complexities that are typical of the integration process of credit groups. Furthermore, also depending on the economic terms and technical modalities through which a potential aggregation transaction would in case take place, as well as on the valorisation of the Bank and its shares as resulting from the determination of the relating exchange ratios which would be applied in the context of this possible transaction, the Bank's shareholders could incur a dilution, even significant, of their interest in the entity resulting from the aggregation. In this respect, please note that this valorisation may be prejudicial to the Bank's shareholders.

Other risks associated with the banking and financial business

(a) Market and interest rate risk

The Group is exposed to the risk that the value of a financial asset (or liability) decreases (or increases) by virtue of the performance of market variables (including without limitation, credit spreads, interest rates, stock prices and exchange rates).

Market risk has an impact both on the trading book – including trading financial instruments and derivative financial instruments linked thereto – and on the banking book – including assets and liabilities other that those included in the trading book.

Market risk derives from potential movements in the value of financial instruments (belonging to the trading book or the banking book) as a result of fluctuations in interest rates, exchange and currency rates, stock and commodity market prices and credit spreads and/or other risks. Such fluctuations may be generated by movements in the general performance of economy and of national and international financial markets, monetary and tax policies, the global market liquidity, the availability and cost of capitals, interventions of rating agencies, political events both at local and international level and wars and terrorist acts.

Risks associated with the fluctuation of interest rates depend, in turn, on various factors that are not under the Group's control, such as monetary policies, the macroeconomic performance and the Italian political conditions. In particular, the results of banking and financing transactions depend on the management and sensitivity of the Group's exposure to interest rates, that is to say on the effects that movements in interest rates of the reference markets would produce on the interest margin and the equity value of the Group. A possible misalignment between the interest income accrued in favour of the Group and interest expenses due by it (in the absence of adequate protection tools against such misalignment), may have negative effects, even relevant, on the business and the economic, capital and/or financial condition of the Bank and/or the Group (such as, without limitation, increased cost of funding to a more marked extent compared to the return on assets or the reduction of the return on assets not set off by a decreased cost for collecting deposits).

As at 30 September 2017 the sensitivity of the banking portfolio, meant as variation of the economic value produced by the movement in interest rates, was equal to Euro 190.68 million for a parallel movement of +100 basis points in the rates curve, while it was equal to Euro +222.15 million for a shift of +100 basis points (as at 31 December 2016 the sensitivity of the banking portfolio was equal to Euro -216.44 million for a parallel movement of +100 basis points).

For management purposes, market risk is monitored using a Value at Risk ("**VaR**") measure, which represents the maximum loss that could be realised in a specified time horizon in a specified confidence range. As at 30 September 2017, the VaR of the Group's trading portfolio, calculated with a confidence range of 99 per cent. and a time horizon of one day, amounted to Euro 6.20 million. In the first nine months of 2017, the average VaR was equal to Euro 7.27 million, while during financial year 2016, the average VaR had been equal to Euro 6.65 million. As at 30 September 2017, the relating capital requirements for supervisory purposes were equal to Euro 287.49 million (as at 31 December 2016 they were equal to Euro 243.65 million).

In the context of the SREP 2017, it has been underlined that, in relation to interest rate risk and notwithstanding the reduction occurred in 2016, the risk positioning of the Group, with reference to contractual conditions, shows a significant exposition to the increase of the interest rates in terms of economic value. The ECB has therefore underlined that the measurement of the positioning of the Group strongly depends on behavioural assumptions. In this respect, certain weaknesses have been identified, mostly related to the lack of internal validation on the base assumptions of the model for the behaviour of the deposits without a set term ("*poste a vista*"). Following the conclusion of the verifications carried out by the various control functions during 2017, the BMPS Group has started various planning activities for the evolution of behavioural models. In particular, it is provided the termination of the updating activity of the model for deposits without a term ("*poste a vista*") that will not have substantial impact on the measurement of the interest rate risk by the end of 2017.

Although the Group has in place specific policies and procedures aimed at identifying, monitoring and managing such types of risk, the occurrence of unexpected events or the inadequacy of procedures adopted may have a negative impact, even relevant, on the business and the economic, capital and/or financial condition of the Bank and/or the Group.

In the context of the market risk, the so called "sovereign risk", associated with a possible decreased value of portfolio instruments as a result of the worsening of the creditworthiness of sovereign issuers is of particular relevance for the Group.

(b) Counterparty risk

In carrying out its activities, the Group is exposed to the so called counterparty risk, namely the risk that the counterparty of a transaction, concerning specific financial instruments (derivatives and repos), defaults prior to the settlement of the same transaction. As part of its operations, the Group negotiates derivatives on a wide variety of underlying, such as interest rates, exchange rates, prices in share indices, derivatives on commodities and credit rights, with counterparties in the financial services sector, commercial banks, public administrations, financial and insurance companies, investment banks, funds and other institutional clients, as well as with non-institutional clients.

In relation to the Group's operations in derivatives, the positive fair value of trading derivatives, defined as per the Bank of Italy's Circular no. 262 of 22 December 2005, as at 30 September 2017 amounted to Euro 3,416 million, down by 17.8 per cent. compared to Euro 4,157 million as at 31 December 2016. As at the same date, the negative fair value of trading derivatives amounted to Euro 1,695 million overall down by 26.5 per cent. compared to Euro 2,306 million as at 31 December 2016.

As at 30 September 2017, the CVA value was equal to Euro 53.7 million (Euro -84.8 million as at 31 December 2016).

In relation to operations in repos the Group enters into contracts mainly with institutional counterparties and to a lower extent, with ordinary clients. As at 30 September 2017, the Group's exposure to repos amounted to Euro 8,819 million, recording a 11.7 per cent. decrease compared to the level of Euro 9,271 million at the end of December 2016. As at 30 September 2017, instead, the exposure to reverse repos amounted to Euro 15,304 million, recording a decrease equal to 50.5 per cent. compared to the value of Euro 30,916 million as at 31 December 2016.

In the context of such operations, the Group uses Italian government securities when dealing with the central counterparty (Cassa di Compensazione e Garanzia S.p.a), while when dealing with other institutional counterparties, also illiquid securities coming from its own securitisations are used, with the taking of the risk that unfavourable variations of market parameters may determine unfavourable conditions in the determination of contractual conditions (e.g. in terms of haircut).

Operations in derivative financial instruments and repos expose the Group, in addition to market risks and operational risks, also to the risk that the contractual counterparty does not fulfil the obligations undertaken or becomes insolvent prior to the expiry of the agreements when the Bank or the Group companies still have credit claims against such counterparty.

Such risk, which became more pronounced after the occurrence of the financial crisis and the consequent financial market volatility, may cause an additional prejudice, in case collaterals, if any, given in favour of the Bank or another Group company are not or may not be realised or liquidated in the times, manners and size sufficient to cover for the exposure to the counterparty.

The possible non-fulfilment by counterparties of the obligations taken pursuant to derivative contracts and/or repos entered into with the Bank or other Group companies and/or the realisation or liquidation of the relating collaterals (if any) at values lower than those expected, may cause negative effects on the business and the economic, capital and/or financial condition of the Bank and/or the Group.

The Group monitors counterparty risk associated with the operations in derivative and repo transactions through the definition of guidelines and policies for the differentiated management, measurement and monitoring thereof depending on the characteristics of the counterparty. In respect of the operations carried out with financial institutions, the daily monitoring of the exposure to counterparty risk is effected on the individual credit facilities by the credit function. Such operations are almost totally supported by netting and collateral exchange agreements. In respect of operations with retail clients, the process is based on the distinction of roles and competences among the different entities in the Group.

It cannot be excluded that the persisting of the international crisis, the possible evolution of market parameters and the possible deterioration of the creditworthiness of counterparties (with consequent default and insufficiency of the collateral provided) may have a negative impact on the valorisation of such derivative instruments, with possible negative effects on the business and the economic, capital and/or financial condition of the Bank and/or the Group.

(c) Concentration risk

Concentration risk derives from exposures to counterparties and groups of related counterparties belonging to the same economic sector, exercising the same activity or coming from the same geographical area.

Specifically, concentration risk may be split into two types:

- *single entity concentration risk* (concentration of entities belonging to the same economic group and/or related groups); and
- *sectorial concentration risk* (concentration of specific economic sectors and/or geographic areas).

Notwithstanding the fact that concentration risk is monitored on a periodic basis, an excessive concentration in a certain geographical areas or in respect of a certain business sector, in case of deterioration of the related creditworthiness, may have negative effects on the economic, capital and/or financial condition of the Bank and/or the Group.

Risk management

The Group is highly focused on the identification, monitoring, measurement and control process of risks. The key principles characterising the risk management process within the Group are based on a clear and strict distinction of roles and responsibilities among the business, control and internal audit functions. The risk management system adopted by the Group is characterised by a clear distinction of roles and responsibilities among the control functions of first, second and third level.

Policies related to risk taking, management, coverage, monitoring and control are defined by the Bank's statutory bodies. In particular:

- the Bank's board of directors defines and approves the strategic guidance and management policies of risks and, at least once a year, expresses the overall level of the Group's risk appetite under a quantitative point of view;
- the board of statutory auditors and the risk committee assess the degree of efficiency and adequacy of the internal control system, with specific reference to risk control;
- the chief executive officer and/or the director general guarantees compliance with the policies and procedures in the matter of risks; and
- the director in charge of the internal control and risk management system, set up in compliance with the corporate governance code, is accountable for setting up and maintaining an effective internal control and risk management system.

For the purpose of enhancing efficiency and flexibility in the decision-making process and facilitating the interaction between the different corporate functions involved, specific management committees are operating and accountable in the matter of risks:

- the risk management committee drafts the policy in the matter of risk management, assesses the Issuer's risk appetite in accordance with annual and multi-annual targets and verifies overall compliance with the limits assigned to the various operational levels; proposes the allocation of capital to be submitted to the approval of the board of directors; assesses, at aggregate and single entity level, the risk profile achieved and hence the capital consumption; and analyses the trend of risk-return performance indicators;
- the finance and liquidity committee expresses the principles and strategic guidance in the matter of treasury finance; resolves upon and submits proposals in the matter of exposures to rate and liquidity risk of the banking portfolio and for the definition of capital management actions; and
- the credit and credit policies committee expresses guidance in the matter of governance of organisational structures, credit processes and problem loans performance; furthermore it expresses an at least annual opinion on credit policies, verifying the commercial sustainability thereof and consistency with risk appetite, and approves, at least annually, corporate policies on "credit assessment"; it is accountable, based on delegated powers, for resolving on the matter of lending, credit management and problem assets.

The Group, in carrying out its activities, assumes various types of risks mainly referred to the following categories: credit risk, market risk, operational risk, counterparty risk, liquidity risk, issuer risk, concentration risk, business risk, reputational risk, real estate risk, equity interest portfolio risk, risk concerning investment products/services destined to customers, and technological risks (different from operational risks only in terms

of mitigation, since it is managed through business continuity and disaster recovery tools). Such types of risk, managed and monitored through Group policies and procedures, can be referred – in light of the specific activity put in place – both to the banking book and the trading book and are subject to on-going monitoring by different levels of controls and, where a quantitative approach is possible, to specific measurement.

Risk management strategies are defined in line with the Group's business model, medium term objectives of the new business plan and external legal and regulatory constraints.

Policies relating to risk taking, management, coverage, monitoring and control are defined by the board of directors of the Bank. Specifically, the board of directors periodically defines and approves the strategic guidance in the matter of risk management and expresses the overall level of risk appetite for the entire Group under a quantitative point of view, in line with the annual budget and multi-year projections.

The Group adopted a risk appetite framework for the purpose of defining a set of risk/return targets and contextually defining a limits system, which, in case of breach, triggers escalation procedures aimed at undertaking the necessary management actions to bring the Group back to *ex ante* defined targets.

For 2017, the board of directors of Banca Monte Paschi di Siena SpA approved the "Group Risk Appetite Statement 2017" ("**RAS 2017**") for the Group and its declination by legal entity/business unit. The risk control function is entrusted with the specific duty to carry out a quarterly monitoring of indicators, prepare a periodic disclosure to the board of directors and activate escalation/authorisation processes in case of exceeding. The first monitoring of the RAS 2017 started with the observation relating to March 2017 and continues with quarterly frequency.

The risk appetite process is structured such as to be consistent with the ICAAP and ILAAP processes and with the planning and budgeting and recovery processes, in terms of governance, roles, responsibilities, metrics, stress methodologies and monitoring of key risk indicators.

The first semester of 2017 has been mainly characterised by the analyses carried out in support of the definition of the Restructuring Plan to be submitted to the authorities. Furthermore, in the course of the first semester of 2017, internal initiatives continued aimed at guaranteeing compliance with national and international legislative provisions. Internal reference regulations for the management of interest rate risk, banking book, credit risk, market risk, the ICAAP process as well as for internal validation have been updated. As part of the annual reviews of operational limits, during the first semester new credit risk management limits have also been introduced in line with the RAS 2017.

The findings of the SREP Decision process, the outcome of which led to the determination of prudential requirements – as described above – highlighted, *inter alia*, the need to generate improvements connected to the risk management system and organisational aspects for which the Issuer already undertook the requested mitigation actions. Such improvement areas – as described above – had already been required by the ECB and the Bank of Italy after both a thematic in-depth analysis, "*Thematic Review on Risk Governance and Appetite*", and an ordinary investigation activity, carried out in the period September 2015 to January 2016, on the Bank's governance and the Risk management system closed in January 2017 and formalised with the sending, on 28 February 2017, of the related "follow-up" letter.

In the meantime, the Issuer already undertook the requested mitigation actions, which are mainly of organisational nature, such as the direct reporting by the chief risk officer to the board of directors, the rationalisation and review of the chief executive officer's powers and reports, the review of credit policies, credit risk control and organisation of the Credit Department, the review and update of risk management policies, the evolution of the risk appetite framework, and interventions aimed at improving risk awareness within the Bank. The actions implemented are awaiting the assessment of the supervisory authority so no further information in this respect is available as at the date of this Base Prospectus.

However, should such actions, the policies and procedures of the Group companies aimed at identifying, monitoring and managing risks prove not to be adequate, or the evaluations and assumptions on which such policies and procedures are based prove to be incorrect, exposing the Bank to unexpected or un-quantified risks, the Bank and/or the Group may incur losses, even relevant, with possible negative effects on the business and the economic, capital and/or financial condition of the Bank and/or the Group as well as the requests by the supervisory authority in the context of the SREP process to comply with higher Pillar 2 requirements compared to current ones.

Furthermore, notwithstanding the existence of the aforementioned internal procedures aimed at identifying and managing risk, the occurrence of certain events, to date unpredictable or not assessed, as well as the

inability of the Group's structures and human resources to handle certain risk elements in carrying out certain activities, may entail losses and accordingly have a relevant negative impact on the business and the economic, capital and/or financial condition of the Issuer and/or the Group.

It cannot be excluded that, as a consequence of the investigation or verification activity by the competent supervisory authorities (and, specifically, future SREPs,) internal models, policies and/or procedures for the management of risks may be judged not fully adequate, with possible consequent negative effects, even material, *inter alia*, on the calculation of capital ratios. Finally, in light of the legislative evolution concerning the adoption of internal models, it will probably be necessary to review certain models and the related parameters to make them fully compliant with the new legislative requirements.

Risks associated with debt restructuring transactions

In exercising the banking activity and, also as a result of the economic/financial crisis that impacted the countries in which the Group operates, the Group is a party to several debt restructuring transactions, both bilateral and in pool, involving its clients. The deterioration of credit quality implies an increased number of debt restructuring transactions (both governed by the Royal Decree no. 267 of 16 March 1942, as amended (the "**Bankruptcy Law**") and contractually dealt with by the Bank without resorting to the procedures provided for by Bankruptcy Law), which provide for amendments to the originally agreed contractual provisions in favour of borrowers. Such amendments concern, in particular, the granting of moratorium periods, the extension of loan amortisation plans, the write-off of a portion of credits claimed by the Bank, the granting of new finance and/or the conversion of the whole or a part of the indebtedness in equity interests or other financial, debt or equity instruments.

With specific reference to the taking of equity interests and/or other instruments representing equity risk through debt conversion, in the context of the aforementioned procedures, the Group acquired some equity interests, even significant, in financed companies, with possible consequent inclusion within the Group's consolidation perimeter. Possible operational or financial losses or risks, which investee companies may be exposed to, may limit the Group's ability to sell the aforementioned equity interests and entail the reduction of the value thereof, even to a considerable extent, with possible negative effects on the business and the economic, capital and/or financial condition of the Bank and/or the Group.

Furthermore the Group, even after the enforcement of guarantees and/or the entering into of debt restructuring agreements, holds or may in the future come to hold equity interests, also of controlling nature, in companies operating in sectors other than those in which the Group operates, *inter alia*, without limitation, the real estate and energy sectors. Such sectors require specific competencies in terms of know-how and management skills that are not included among those typical of the Group. In the delays of possible disposal transactions, the Group may find itself forced to manage such companies and possibly to include them, depending on the size of the equity interests acquired, within its consolidated Financial Statement. This circumstance exposes the Group both to risks typical of the business of the single investee companies, and to risks deriving from a non-efficient management of such equity interests, with possible negative effects on the business and the economic, capital and/or financial condition of the Bank and/or the Group.

Among debt restructuring transactions which are relevant for the Issuer, as a consequence of the definitive nature of homologation decrees by the Courts of Milan in respect of the restructuring agreements of the companies belonging to the Sorgenia Group pursuant to art. 182-*bis* of the Bankruptcy Law (entered into on 14 November 2014 and becoming effective on 16 March 2015), the Issuer holds a 16.67 per cent. interests in the share capital of Nuova Sorgenia Holding S.p.A., which company in turn controls Sorgenia S.p.A.. Furthermore, note that, as at 30 September 2017, the Group's overall credit exposure to the Sorgenia Group was equal to Euro 388.5 million (Euro 360 million by cash and Euro 28.5 million by accrual), in addition to a portion of the bond loan to be converted into shares issued by Sorgenia S.p.A. in 2015, equal to Euro 44.2 million and equity financial instruments issued by Nuova Sorgenia Holding S.p.A. for Euro 88.4 million.

In consideration of the financial difficulties incurred by Sorgenia S.p.A., Sorgenia Power S.p.A. and Sorgenia Puglia S.p.A. and the need to proceed with the re-modulation of the terms provided for by restructuring agreements, the Issuer, for the purpose of allowing those companies to have the necessary time to finalise the new business plan and the financial manoeuvres, entered into an moratorium and standstill agreement, which became effective on 26 August 2016, by virtue of which it undertook, until 31 December 2016, or until the entering into of the new restructuring agreement, where preceding, not to revoke credit facilities granted to the companies of the Sorgenia Group, specifically undertaking to maintain in place the endorsement credit facilities granted to Sorgenia S.p.A. and the derivatives entered into with the same companies. Furthermore, pursuant to the moratorium and standstill agreement, the Issuer undertook not to: (i) create or enforce

guarantees supporting the credits claimed against the same debtors; (ii) ask the repayment of liabilities on account of principal and the payment of delay interests (accrued and to accrue) on the exposure subject matter of the restructuring transaction, (iii) transfer its contractual position or the credits claimed against the companies of the Sorgenia Group; and (iv) file a petition for the initiation of insolvency proceedings against the debtors.

The expiry of the moratorium and standstill agreement has been subsequently postponed to 30 April 2017 and it afterwards continued *de facto*, in the delays of the final negotiations on the new restructuring agreement and the technical time necessary for the completion of the deliberative processes by the various banks involved.

On 1 August 2017, the new restructuring agreement has been finalised (with which, until the effectiveness thereof, the moratorium and standstill period has, by the way, been postponed). The transaction's consideration has been determined at an exchange-value of around Euro 526 million (including Euro 44 million arising from a converting bond loan in Sorgenia S.p.A.).

Sorgenia Puglia S.p.A. which, after a prolonged period of positive results, achieved full financial and capital balance and accordingly, on 28 July 2017, proposed and entered into with the various banks involved a guarantee termination and discharge agreement with contextual full early repayment of its debt to the banking system (for the Issuer equal to around Euro 33.6 million), did not take part in the restructuring agreement.

As at the date of the Base Prospectus, there is no certainty that the restructuring agreement will be homologated and that, even if such agreement were homologated, the same Group would be able to fulfil the undertakings given in the context of this agreement. Should the new restructuring agreement not be homologated or the Sorgenia Group not be able to fulfil the related obligations undertaken, the economic, capital and/or financial condition of the Issuer may be negatively affected, by virtue of the exposure to Sorgenia Group.

Again among debt restructuring transactions relevant for the Issuer and within the context of a credit securitisation transaction pursuant to Law 130 to be realised with one or more SPVs referred to as "Pillarstone Italy", on 26 June 2017 the assignment of the receivables claimed by the MPS Group was resolved upon, for a total of Euro 298 million, to the company Rizzo Bottiglieri De Carlini Armatori S.p.A. (in composition with creditors procedure pursuant to art.160 and 186-*bis* of the Bankruptcy Law). On 1 July 2017, BMPS and MPS Capital Services assigned to the vehicle Norma SPV s.r.l. the receivables due by Rizzo Bottiglieri De Carlini Armatori S.p.A.. On 21 July 2017, the issue of notes by Norma SPV S.r.l. was carried out. BMPS and MPS Capital Services purchased the mezzanine and junior notes proportionately to the receivables assigned, which therefore have not been subject to derecognition within their respective financial statements.

Risks associated with the ownership structure

As at the date of the Base Prospectus – following the execution of the Capital Increase reserved for the MEF – the Ministry of Economy and Finance holds 52.184 per cent. of the Bank share capital, and, accordingly, it holds by law the control over it.

In this respect – pursuant to art. 19, subsection 2 of Decree 237 – the Offer has been launched, in the context of which the MEF is purchasing, through the Bank, the new shares assigned in conversion to the holders of UT2 Notes meeting the characteristics identified by Decree 237.

In this respect, according to the valuations made by the Bank, in the event of adhesion to the Offer for an amount equal to the entire exchange value, on the basis of the maximum price provided for by the Decree 237 – equal to Euro 8.65 – the MEF would hold 68 per cent. of the BMPS' capital shares.

The settlement date of the Offer was 24 November 2017.

During the tender period (31 October 2017 – 20 November 2017) no. 198,521,533 UT2 Shares, equal to 83.520540 per cent. of the UT2 Shares to which the Offer relates (equal to a total of no. 237,691,869), have been validly tendered into the Offer.

As at the date of the Base Prospectus, on the basis of the Offer's final results, the MEF has purchased a number of UT2 Shares so as to hold a share capital of the Bank equal to 68.247 per cent..

Furthermore, it has to be considered that the Precautionary Recapitalisation constitutes – pursuant to art. 18 of Decree 180 – a measures adopted on a precautionary and temporary basis. In this respect, the commitments required by DG Comp provide, *inter alia*, for the MEF to dispose of its stake held in the Bank by the end of the Restructuring Plan. Accordingly, in case of disposal, in whole or in part, of the stake held by the MEF in

the Bank, a consequent variation in the ownership structure and, if the case, even in the control over the same Bank would take place.

Risks associated with the investment in the Issuer shares and the recovery and resolution mechanisms of failing enterprises

The subscription of shares involves the assumption of the typical risks associated with an investment in risk capital. The investment in shares involves the risk of loss, even in full, of the invested capital should the Issuer be subjected to insolvency procedures or fail or be likely to fail with the consequent application of resolution measures among which the bail-in, as specified below.

On 16 November 2015, it was published in the Official Gazzette the Decree 180 and Legislative Decree no. 181/2015 (together, the "**BRRD Decrees**") implementing the directive provding for the establishment of an EU-wide framework for the recovery and resolution of credit institutions and investment firms (Directive 2014/59/EU) (the "**Bank Recovery and Resolution Directive**" or "**BRRD**") and issued for the purpose of supplementing the Single Supervisory Mechanism which establishes a recovery and resolution framework of credit institutions and identifies, *inter alia*, the powers and tools that resolution authorities – among which the Bank of Italy – may adopt for the resolution of a bank which is failing or likely to fail, as defined by article 17, subsection 2, of the aforementioned Decree 180.

This was done for the purpose of guaranteeing continuity of the essential functions of the institution, reducing to a minimum the collapse impact on the economy and the financial system as well as costs for taxpayers. For more details on BRRD and the relevant legislative framework, please see "*The Bank Recovery and Resolution Directive is intended to enable a range of actions to be taken in relation to credit institutions and investment firms considered to be at risk of failing. The taking of any such actions (or the perception that the taking of any such action may occur) could materially adversely affect the value of any Notes and/or the rights of Noteholders*" below.

In this respect, with Decree 237 some measures were adopted by the Italian legislator in support of banks which are facing certain difficulty conditions. In particular, such Decree implements, *inter alia*, the so called precautionary recapitalisation or extraordinary public support schemes provided for by art. 32, subsection 4, of the BRDD.

In light of such legislative framework, in December 2016 the Bank requested access to the so called precautionary recapitalisation, the characteristics of which were then specified in the Recapitalisation Decree after the approval of the Restructuring Plan by the European Commission.

The Burden Sharing is also provided for as part of the Capital Enhancement, which aims at reducing to minimum "State aid", as defined by the EU legislation, necessary for the realisation of the Precautionary Recapitalisation; this in application of the EU principle of preventive "burden sharing" which provides for the conversion into shares of subordinated bonds and hybrid securities as condition for the granting of "State aid" to failing banks. Such measure differs from bail-in, *inter alia*, because it is not applied in the context of the resolution.

More specifically, should a bank be failing or likely to fail, the resolution authority would be entitled to apply various measures to recover its situation, in alternative to its forced administrative liquidation, among which the bail-in (i.e. the power to reduce, even to zero, the nominal value of shares and depreciate credits owed by the bank with their conversion into shares, to absorb losses and recapitalise the bank in difficulty or a new entity that will carry out its essential functions).

More specifically, the Decree 180 under the article 20, subsection 1 provides that when the conditions set by the relevant regime for the launching of management procedures of the intermediary "crisis" are satisfied, the resolution authority shall order: (a) the reduction or conversion of shares, other equity interests and equity instruments (Common Equity Tier 1 instruments, additional Tier 1 instruments, Tier 2 instruments) issued by the Issuer, when this would remedy the Bank's failure or likely failure; or (b) when the measure set out under (a) above would not remedy the failure or likely failure, the adoption of resolution measures of the intermediary or the forced administrative liquidation thereof.

In particular, shares, other equity interests and equity instruments issued by a failing entity – pursuant article 27 of the Decree 180 – may be reduced or converted : (i) regardless the launching of the resolution or forced administrative liquidation; or (ii) in combination with a resolution action, when the resolution plan provides for measures entailing the value reduction of shareholders' and creditors' receivables or their conversion into capital; in this case, the reduction or conversion is ordered immediately prior to or contemporaneously with

the application of such measures. Resolution measures – pursuant to article 39, subsection 1, of the Decree 180 – also include the bail-in, which consists of the reduction of shareholders' and creditors' rights or their rights being converted into capital.

The bail-in is applied in accordance with a hierarchy, which is inspired by the principle according to which whoever invests in more risky financial instruments shall bear possible losses or conversion into shares before other investors; only after having exhausted all resources of the more risky category it is possible to move on to the next category.

Credits of persons, other than shareholders, may participate in the losses in accordance with the below described order. The introduction of bail-in, accordingly, may entail a higher cost of deposit collection.

In particular, in applying the bail-in, the resolution authority, pursuant to article 52, subsection 1, of Decree 180, shall comply with the following hierarchy:

1) first of all the reduction shall be applied, up to the amount of losses, according to the following order:
   - Common Equity Tier 1 instruments, among which the Issuer's shares;
   - Additional Tier 1 Instruments;
   - Tier 2 Instruments, including subordinated bonds;
   - subordinated debts other than Additional Tier 1 Instruments and Tier 2 Instruments; and
   - residual liabilities, including senior notes;
2) once losses are absorbed, or in the absence of losses, the conversation into shares eligible as CET 1 will be applied, according to the following order:
   - Additional Tier 1 Instruments;
   - Tier 2 Instruments, including subordinated bonds;
   - subordinated debts other than Additional Tier 1 Instruments and Tier 2 Instruments; and
   - residual liabilities, including senior notes.

Within the "residual liabilities" class, the bail-in will concern, until 31 December 2018, senior notes and other unsecured Bank's liabilities, including deposits, for the portion exceeding the amount of Euro 100,000, of enterprises other than SMEs and microenterprises, interbank deposits with maturity exceeding seven days and derivatives. As of 1 January 2019, the aforementioned deposits are preferred to senior notes and other unsecured liabilities.

Liabilities specified under article 49 of Decree 180, among which, without limitation, bank asset backed bonds (such as covered bonds) and deposits protected by the deposit guarantee fund within limits of Euro 100,000 per depositor (not every deposit is protected by the fund: those listed under art. 96-*bis* of the Italian Banking Act are excluded) are excluded from bail-in. In case where the bail-in measure is imposed on a bank, the deposit guarantee fund will intervene by disbursing in its favour an amount sufficient to cover for protected deposits within limits of Euro 100,000 per depositor, provided that the amount necessary for this purpose does not exceed 50 per cent. of the fund's resources (or the higher amount set by the Bank of Italy).

It has to be specified that the Issuer's subordinated loans as at 30 September 2017 have been subject to conversion into UT2 Shares, while as at 31 December 2016, their nominal value was equal to around Euro 4,411 million.

The above described bail-in instrument may be applied both individually and in combination with the other resolution tools provided for by the implementing legislation – pursuant to article 39, subsection 1, of Decree 180 – such as: (i) assignment of goods and legal rights to a third party; (ii) assignment of goods and legal relations to a bridge-entity; (iii) assignment of goods and legal rights to a vehicle for the management of business.

Accordingly, with the application of bail-in, shareholders would find themselves exposed to the risk of their investment being reduced and/or reduced to zero, even in the absence of a formal declaration of insolvency of the Issuer.

In order to implement banking crisis management measures, the resolution authority, pursuant to article 60 of Decree 180, may *inter alia*: (i) order the transfer of the failing bank's shares; (ii) order the assignment of the

failing bank's assets; (iii) reduce, even to zero, the nominal value of the bank's shares; (iv) cancel debt securities issued by the bank (not excluded from bail-in); (v) convert liabilities into shares or amend maturities and interest rates or suspend the payment thereof; (vi) impose the issuance of new shares; and (vii) dismiss managers and top executives. As at the date of the Base Prospectus, the measures laid down by article 50 of Decree 180 (relating to the minimum requirement of own funds and liabilities eligible for bail-in) have not been adopted yet.

Should a crisis materialise, due to which the Issuer would be subjected to resolution measures - including, without limitation, the case in which the Issuer is not able to execute the transaction – the Issuer shares may be depreciated and/or credits owed by the Issuer may be cancelled or substantially reduced; furthermore, the Issuer's shareholders may see their stake being strongly diluted in the case where other liabilities are converted into shares at conversion rates particularly unfavourable for them. In this respect, the fact that the Issuer has been granted access to the Precautionary Recapitalisation and, accordingly, to the Burden Sharing application, does not exclude that, in the event that the Issuer is subjected to resolution, the bail-in measure may also be applied where the resolution authority deems it appropriate.

The entire legislative framework in the matter of resolution of enterprise crises is aimed at allowing the management of crises by using private sector resources, reducing negative impacts on the economic system and preventing rescue costs from having to be borne by taxpayers. Public financial supports in favour of a failing bank may be granted only after the above described resolution tools have been applied and in case the conditions provided for at EU level by the "State aid" regime are met.

In case the above stated resolution measures are not sufficient, authorities may require the use of the SRF (as defined below), set up by Regulation (EU) no. 806/2014, published on 30 July 2014 in the Official Gazette of the European Union.

Regulation (EU) no. 806/2014 also sets up the SRM (as defined below), which is in charge of the centralised management of Euro Area banking crises, and entered into force as of 1 January 2016.

The SRM is a complex system which comprises national resolution authorities and a centralised authority (the SRB, as defined below), formed by representatives of the "National Resolution Authorities" and some permanent members. For significant banks and cross border groups the Single Resolution Board carries out the duties of resolution authority competent to identify *ex ante* the modalities with which the crisis could be addressed, and to decide, when the crisis materialises, how to actually manage it by adopting a resolution plan.

The Issuer's qualification as significant bank entails being subject to the decision-making power of the Single Resolution Board, in case of application of a resolution procedure. For more details on the SRF, SRM and SRB, please see "*As of 2016, the Group is subject to the provisions of the Regulation establishing the Single Resolution Mechanism*" below.

Regulation (EU) no. 806/2014 further provides that all banks authorised in the individual Member States should contribute on a yearly basis to the establishment of the SRF. For more information on the contributions paid by the Issuer to the SRF reference is made to "*Risks associated with ordinary and extraordinary contribution obligations to the Single Resolution Fund and the Interbank Deposit Guarantee Fund (Fondo Interbancario di Tutela dei Depositi)*" of this Base Prospectus.

Risks associated with the ratings assigned to the Issuer

The risk linked to an issuer's ability to fulfil its obligations, arisen after the issuance of debt instruments and money market instruments, is in practice defined by way of a reference to the credit ratings assigned by independent rating agencies.

Such valuations and relating surveys may be of help for investors in analysing credit risks linked to financial instruments, since they provide indications about issuers' ability to fulfil their obligations. The lower the rating assigned on the respective scale and the higher the risk, evaluated by the rating agency, that an issuer will not fulfil its obligations at maturity or that it will not fully and/or timely fulfil them. On the other hand, the outlook represents the parameter indicating the expected short term trend for the ratings assigned to an issuer.

A rating, however, does not represent a recommendation to purchase, sell or retain any bond issued and may be suspended, reduced or withdrawn at any time by the rating agency which issued it. A suspension, reduction or withdrawal of a rating assigned may have a negative impact on the market price of the bonds issued and, furthermore, on the stock price of the same issuer.

As at the date of the Base Prospectus, the Issuer has been assigned ratings by international agencies Moody's, Fitch and DBRS. Such agencies, on 31 October 2011, obtained registration under Regulation no. 1060/2009/CE of the European Parliament and the Council of 16 September 2009 relating to credit rating agencies.

The deterioration of the national and international economic landscape together with the sovereign debt crisis have been crucial factors, starting from 2011, in the negative performance of the rating assigned to the Republic of Italy, to the most important financial institutions of the country as well as to the Bank.

In determining the rating assigned to the Issuer, agencies also take account of and examine various Group performance parameters, among which profitability and ability to maintain its capital ratios within certain levels. Should the Issuer and/or one of the subsidiaries that have been assigned a rating not achieve or maintain the results measured by one or more parameters or should the Group not be able to maintain its capital ratios within the pre-identified level, this may lead to a downgrade of the rating assigned by the agencies, with a consequent higher cost of funding, restricted access to capital markets, negative repercussions for the Group's liquidity and the possible need to supplement collaterals given.

The most recent comments of rating agencies on the Issuer are summarised below:

- DBRS (23 August 2017): DBRS raised the long term rating to 'B (high)' from 'B (low)' and the short term rating to 'R-4' from 'R-5', amending the outlook from 'Under Review Developing' to 'Stable', as a consequence of the realisation of the Precautionary Recapitalisation and the improved risk profile due to increased coverage levels in the second quarter of 2017 on the loans falling under the perimeter of the scope of the securitisation. The rating 'B (high)' takes into account the high level of Impaired Loans, the weak business profile as a consequence of the loss of commercial activity registered during 2016 and the execution risk related to the Restructuring Plan. While recognising the capacity of the Bank, in the past, to carry out the planned reductions of cost, DBRS believes that the necessary improvement of the profits and of the credit costs may present difficulties. The rating takes also into account the high level of competition faced by the Bank, the difficult context in which it operates, the commercial restrictions set in the Restructuring Plan in line with the regulation on "State aid", as well as the low interest rates and stricter regulatory environment. A gradual achievement of the goals provided by the Restructuring Plan and a greater trust by the market may contribute to an improvement of the rating. On the contrary, the failed realisation of the Plan, an additional deterioration of the risk profile of the Bank or a significant weakening in terms of capital and liquidity may contribute to a worsening of the rating;
- Fitch (11 August 2017): Fitch reduced to "f" and subsequently raised to "b" the viability rating of the Bank, increased the long term rating to "B" with outlook "Stable" from "Rating Watch Evolving" and confirmed the short term rating at "B" removing the outlook "Rating Watch Negative". The increased rating reflects the stronger capitalisation of the Bank, the improved asset quality, as a consequence of the derecognition of Impaired Loans, and the reduced pressure on capital deriving from net Impaired Loans. The "Stable" outlook reflects stable perspectives for the Bank. The rating agency expects, in the context of the Restructuring Plan 2017-2021, a gradual improvement of profitability; however, such improvement will depend on the management's capacity to realise the significant cost reductions agreed with the authorities and in the Italian economic context. Finally, Fitch foresees a risk of execution in the project of re-organisation and deep review of the organisational processes of the Bank. Should the securitisation of the Doubtful Loans not be successfully carried out or the Bank not reach the goals set in relation to the costs' reduction, the Impaired Loans' additional reduction and the increase of the profitability, the ratings may be worsened. Moreover, should the impact of the Impaired Loans on the total of the credit significantly increase and the value of the Impaired Loans go back to being a multiple of the core capital of the Bank, the rating assigned to the latter would be worsened. On the contrary, improvements in the implementation of the new strategy and the return to adequate levels of deposits and liquidity may lead to an increase of the rating; and
- Moody's (12 July 2017): Moody's rating agency raised the BCA rating (Baseline Credit Assessment), from "ca" to "caa1" as a consequence of the finalisation of the Restructuring Plan which provides for the preventive recapitalisation by the Italian Government, the mandatory conversion of subordinated notes into shares and the significant reduction of Impaired Loans. The action reflects the expectation of improvement the Bank's credit profile as a consequence of the aforementioned transactions. However, Moody's does not include in the calculation of the BCA the entire benefit deriving from the improved profitability expected according to the Plan, since it is expected that the return to an

adequate profitability will be gradual and challenging, due to the simultaneous change of the organisational structure and the strong reduction of the workforce and of the branches. The long term rating "B3" and the short term rating "NP" (Not Prime) remained unchanged. The long term outlook has been changed to "Negative" from "Under Review with Direction Uncertain". Moody's may further increase the ratings assigned as a consequence of significant improvements in the achievement of the goals of the Plan, in particular: (i) ROA above 0.4 per cent.; (ii) impact of the Impaired Loans on the total of the credits lower than 15 per cent.; and (iii) increase of the deposits or issue of senior and subordinated debt instruments not assisted by state guarantees. On the contrary, it may worsen the ratings if (i) the Bank were not to return to generate profits on a continuous basis; (ii) the CET1 ratio were to fall below 12 per cent.; (iii) the Impaired Loans were to increase again in a significant manner; or (iv) the Bank were not to be able to increase the deposits, as a consequence, remaining dependent on debt instruments guaranteed by the State.

* * * *

The Issuer's rating may furthermore be affected by the rating of the Italian State which, as at the date of the Base Prospectus, is higher than that of the Issuer. Therefore, a possible downgrading of Italy's sovereign rating may lead to a further downgrading of the Issuer's rating, with consequent negative effects on the business and the economic, capital and/or financial condition of the Bank and/or the Group. For further information on Italian State's rating see paragraph "*Risks associated with the Groups exposure to sovereign debt*".

On the Issuer's creditworthiness depends the possibility to access the market to obtain unsecured loans. A possible reduction of the rating levels assigned to the Issuer or the withdrawal of one or more of the aforementioned ratings may have an unfavourable impact on the opportunities for the Bank and the Group to have access to the various liquidity instruments and on the ability thereof to compete in the market, circumstance that may cause increased deposit collection costs or request the creation of additional guarantees for the purpose of raising liquidity, with consequent negative effects on the business and the economic, capital and/or financial condition of the Bank and/or the Group.

Possible changes to the Issuer's ratings that may intervene during the validity period of the Base Prospectus, or the possible subjection to review thereof by rating agencies, will be disclosed to the public by way of specific press releases published on the Issuer's website (www.gruppomps.it).

For further information on the ratings assigned to the Issuer, among which the meaning of the assessments assigned to the Issuer, reference is made to "*Banca Monte dei Paschi S.p.A. – Ratings*" of this Base Prospectus.

Risks associated with goodwill and other intangible assets impairments

As at 30 September 2017, the Group's intangible assets were equal to Euro 296 million (of which Euro 8 million related to goodwill) and represented 2.7 per cent. of the Group's consolidated net equity.

All the Group's intangible assets are evaluated at cost. Intangible assets other than goodwill and with limited useful life are amortised on a straight line basis based on the related useful life. At each closing of financial statement or interim report, in the presence of impairment evidences, the asset recovery value is estimated. The loss amount, recorded through profit or loss, is equal to the difference between the book value and the recoverable value of the asset.

In particular, international accounting standard IAS 36 lays down the accounting principles and financial statement disclosure relating to the impairment of some asset types, among which also goodwill, illustrating the principles an enterprise should comply with to make sure its assets are posted in the financial statement at a value not exceeding recoverable value.

IAS 36 imposes to compare the goodwill book value with its recoverable value every time there is an indication that the asset may have incurred a value reduction and in any case at least once a year, on occasion of the drafting of the financial statement (the so called impairment test).

Since goodwill is not capable of autonomously producing cash flows, the goodwill recoverable value is estimated with reference to the business units (Cash Generating Unit, hereinafter the "**CGU**").

The goodwill value, as at 30 September 2017 equal to Euro 8 million, is fully allocated to the "Financial Promotion and Digital Banking" CGU. This value is the result of the write-downs applied in the previous financial years, as well as the assignment of Biverbanca occurring in December 2012.

As at 30 September 2017, the main qualitative and quantitative impairment indicators, based on external and internal factors, have been monitored for the purpose of verifying the existence of any sign of impairment of the goodwill value. From the analysis carried out, which took into account the evolution of the reference scenario, the discount rate and the figures of the Restructuring Plan, no sign of potential goodwill impairment emerged.

The impairment test on goodwill as at 31 December 2016 and 31 December 2015, in both financial years equal to Euro 8 million and fully allocated to the "Financial Promotion and Digital Banking CGU", did not detect the need for write-downs. With regard to 2016, the test was carried out on the basis of the 2016 preliminary data and updated projections set out in the 2017-2021 risk appetite framework calculated in line with the Group's forecast plans, in continuity with the impairment tests conducted in the past. With respect to 2015, the test was conducted on the basis of the 2015 preliminary and 2016 budget data and the updated projections set out in the 2016-2018 risk appetite framework updating the 2016 and 2017 economic targets set by the restructuring plan and the 2013-2017 business plan, to the achievement of which the Issuer is still today formally committed to both *vis-à-vis* the competent authorities and stakeholders.

As at 31 December 2014, within the impairment test's on goodwill context, the need has been detected to proceed with write-downs on the entire goodwill book value allocated to the "Private" CGU for Euro 662 million. The CGUs identified for the purpose of the test are respectively the "Private" CGU, the "Corporate" CGU and the "Financial Promotion and Digital Banking" CGU, in line with the approach adopted by the Group's segment reporting. This latter CGU represents the new organisational structure where the subsidiary Banca Widiba has been incorporated, together with the financial promoters network previously included in the Private CGU. The test was conducted on the basis of the 2014 preliminary and 2015 budget data, and the economic targets for 2016 and 2017 set by both the restructuring plan and the business plan 2013-2017.

However, taking into account that the internal and external impairment presumption indicators (reduction of BMPS' market capitalisation, reduction of market multiples, worsening of the macroeconomic scenario compared to the assumptions underlying the restructuring plan and the 2013-2017 business plan, Group's results in 2014) represent an objective and evident increase in the restructuring plan execution risk, with a prudential view, goodwill has been tested on the basis of more conservative hypothesis with reference to profitability targets and evaluation parameters, through a multi-scenario analysis which took into consideration, *inter alia*, analysts' consensus estimates on the Group's profits and the minimum Common Equity Tier 1 Ratio and Total Capital Ratio thresholds required by the ECB after the February 2015 SREP.

As at 30 September 2017, the value of other intangible assets amounts to Euro 288 million.

As at 31 December 2016, other intangible assets amounted to Euro 338 million (Euro 392 million as at 31 December 2015 and Euro 434 million as at 31 December 2014), of which Euro 65 million (Euro 92 million as at 31 December 2015 and Euro 119 million as at 31 December 2014) represents by intangible assets associated with customer relations and Euro 273 million (Euro 300 million as at 31 December 2015 and Euro 314 million as at 31 December 2014) from software. In the three-year period of observation of intangible assets associated with customer relations an impairment indicators analysis has been carried out, from which no need to proceed with the impairment test has been detected. With regard to software, an analysis of the most important capitalised assets' future utility has been carried out to verify their value's soundness. As regards financial years 2016 and 2014 said analysis showed no significant adjustments; for financial year 2014 the analysis entailed write-downs for Euro 39 million.

It is, however, underlined that assessments are particularly complex due to the current macroeconomic and market context and the consequent difficulty and uncertainty concerning long term profitability forecasts. The evolution of the macroeconomic context may therefore in the future lead to the need to apply write-downs, even significant, with possible negative effects on the business and the economic, capital and/or financial condition of the Bank and/or the Group.

Risks associated with the assignment and evaluation of equity interests

As at 30 September 2017, the value of equity interests amounted to Euro 1,001 million, equal to 0.7 per cent. of the Group's total assets; the most relevant are AXA MPS Assicurazioni Vita (Euro 770 million), AXA MPS Assicurazioni Danni (Euro 75 million), Fondo Etrusco (Euro 65 million), and Fidi Toscana S.p.A. (Euro 22 million). As at 31 December 2016, instead, the value of equity interests amounted to Euro 1,032 million,

equal to 0.7 per cent. of the Group's total assets; the most relevant were AXA MPS Assicurazioni Vita (Euro 772 million), Fondo Etrusco (Euro 65 million), AXA MPS Assicurazioni Danni (Euro 66 million) and Fidi Toscana S.p.A. (Euro 42 million).

In accordance with the provisions of international accounting standard IAS 36, an impairment test is periodically conducted on equity interests.

As at 30 September 2017, the assessment of equity interests impairment indicators entailed value adjustments equal to around Euro 27.8 million, referred to the equity interests Trixia s.r.l. for Euro 7.1 million, Interporto Toscano Vespucci for Euro 1.9 million, and Fidi Toscana S.p.A. for Euro 18.8 million.

As at 31 December 2016, the value adjustments amounted at Euro 1.6 million, totally referred to Trixia S.r.l., while as at 31 December 2015 the overall value adjustments have been equal to Euro 10.1 million, referred to Marinella S.p.A. for Euro 6.2 million, Terme di Chianciano S.p.A. for Euro 2.2 million and three minor equity interests for Euro 1.7 million.

Finally, as at 31 December 2014, the assessment of impairment indicators highlighted overall value adjustments equal to Euro 47.1 million, referred to Fenice Holding S.p.A. for Euro 16.4 million, Sansedoni Siena S.p.A. for Euro 14.8 million, Interporto Toscano A. Vespucci S.p.A. for Euro 7.3 million, Marinella S.p.A. for Euro 4.7 million, Casalboccone Roma S.p.A. for Euro 2.0 million, Industria and Innovazione S.p.A. for Euro 1.2 million and two minor equity interests for Euro 0.7 million.

Should the Bank be forced to review the value of the equity interests held, also due to extraordinary and/or assignment transactions as well as changed market conditions, the same Bank may be forced to apply significant write-downs, with possible negative effects on the business and the economic, capital and/or financial condition of the Bank and/or the Group.

In the context of the Restructuring Plan and of the undertakings given by the Bank in the context of the "State aid" procedure, the assignment of non-strategic assets held by the Bank is provided for, among which the foreign banks, MP Banque and MP Belgio. As at the date of the Base Prospectus, the conditions for their execution have not been satisfied.

Should it not be possible to realise (even using a specifically appointed advisor) one or both of the aforementioned assignments, the Issuer will have to severely restrict the two banks' business to that closely aimed at deleveraging commitments, excluding the development of new activities and the entry into new markets, with consequent negative effects on the economic, capital and/or financial condition, due also to significant restructuring costs and the possible reduction of deposit collection. In relation to sales processes – prior ones launched back in 2015 – having been discontinued with no binding purchase offer having been received from third parties in the two foreign banks, the Bank already activated a new competitive assignment process with the support of a financial advisor.

Although the Group continues to be engaged in the assignment plan of the subsidiaries MP Banque and MP Belgio, in consideration of the uncertainties around the times and modalities of the disposal thereof, the Issuer may have to resort – also for the purpose of fulfilling the undertakings given in the context of the Restructuring Plan – to measures other than the assignment of the foreign banks such as, without limitation, the deleveraging thereof, with consequent negative effects on the economic, capital and/or financial condition even consequent to the costs related to the same restructuring.

For the sake of completeness of information, the Issuer will also have to proceed with the disposal of a list of equity interests, throughout the plan term, among which Bassilichi S.p.A., CO.E.M S.p.A. and Consorzio Triveneto S.p.A., without prejudice to the Bank's capital position. On 3 July 2017, the assignment to ICBPI of the stake held in Bassilichi S.p.A. (equal to 11.74 per cent.) and in Consorzio Triveneto S.p.A. (equal to 10.13 per cent.) was finalised.

Operational Risk

In carrying out its business, the Group is exposed to the so called operational risk, namely the risk to incur losses deriving from the inadequacy or malfunctioning of corporate procedures, errors and shortcomings of human resources, internal processes or IT systems, or external events. Such type of risk includes losses deriving from frauds, human errors, discontinuation of operations, unavailability of systems and increasing resorting to atomisation and outsourcing of corporate functions, contractual non-fulfilments, natural catastrophes, low IT security and legal risks, while strategic and reputational risks are excluded. Operational risks differ from other typical risks of the banking and financial business (credit and market risks) because

they are not taken by the Bank based on strategic choices, but are embedded in its operations and are in any case present.

The Group, also for the purpose of mitigating the possible negative consequences associated with such type of risk, adopted an internal model to determine the capital requirement versus operational risks (Advanced Measurement Approach method – "**AMA**"), validated by the Bank of Italy also for reporting purposes starting from June 2008. Such model includes specific rules governing the identification, measurement, monitoring and mitigation of operational risk process and methodologies.

After five years from the initial acknowledgement of internal models on operational risks for the purpose of calculating capital requirements, the AMA has been reshaped to align it with the market best practices and include requirement reduction techniques within the calculation, such as the deduction of expected losses and the diversification among risk classes. In January 2014 the Group has been authorised to use such operational risk requirement reduction techniques by the Bank of Italy in respect of data as at 31 December 2013. Starting from 31 December 2014, BMPS has been authorised to adopt methodological amendments concerning both the quantitative and qualitative integration. Finally, in February 2017 the Group has been authorised to use scaling[3] techniques of external loss data for the calculation of the requirement starting from 30 June 2017.

As at 31 December 2015, the overall capital requirement in respect of operational risks was equal to Euro 702.9 million, substantially stable compared to Euro 706.6 million as at 31 December 2014. Again as at 31 December 2015, overall operational losses were significantly reduced compared to 31 December 2014.

As at 31 December 2016, the Group's capital requirement in respect of operational risks was equal to Euro 678 million, substantially stable compared to Euro 702.9 million as at 31 December 2015. Again as at 31 December 2016, overall operational losses were significantly reduced compared to 31 December 2015. As at 30 September, the Group's capital requirement in respect of operational risks was equal to Euro 745.6 million, up compared to 31 December 2016 linked to the methodological evolution of the internal model introduced starting from 30 June 2017. The methodological evolution, validated and authorised by the ECB in the first semester of 2017, has increased the relevant recording period of the internal data relating to losses from 5 to 10 years and has introduced a data scaling of losses reported by financial institutions to the Italian database of operational losses (DIPO); these elements brought to an increase of the RWA relating to operational risks, notwithstanding the operational losses recognised in the first nine months of 2017, are substantially stable compared to 31 December 2016.

In relation to the calculation of capital requirements, the Basel committee published a consultation document with the amendment proposals to the regime of capital requirements in respect of operational risks. A variation, if any, of calculation criteria may entail increased requirements and have an impact on the Group's capital adequacy.

Although the Issuer deems the above described organisational and control measures adequate, there is the risk that certain types of risk may still occur in the future, even due to unforeseeable events, fully or partially outside the Group's control (including, without limitation, frauds, scams or losses deriving from employee disloyalties and/or the violation of control procedures, the attack of IT viruses or the malfunctioning of electric and/or telecommunication services, possible terrorist attacks).

Furthermore, following the entry of the MEF into the share in the Bank's capital within the context of the Precautionary Recapitalisation, the Issuer has adopted a new approach (the so called "*a silos*" approach) – and, consequently, new systems – in order to comply with the laws and regulations on transactions with associated entities, with particular reference to the transactions put in place by the Bank with MEF and with the MEF's subsidiaries and/or investee companies. Although such new approach and the setting up of the systems to implement it were preliminarily submitted to the authority, it cannot be excluded that they may be considered inadequate in the future or that some failings and/or critical issues may come up during their implementation.

Risks associated with securitisations

Starting from 2000, the Group realised several securitisations with the purpose, on a case by case basis, of raising funding resources, or releasing supervisory capital or optimising its counterbalancing capacity.

In the course of financial year 2014, the Group did not carry out any new securitisations, while in the course

[3] The AMA internal model uses both internal loss data and external loss data (system data) to calculate the requirement. The scaling mechanism allows to assign a different weighting to internal data compared to external data, for the purpose of avoiding unexpected movements in the requirement as a consequence of significant external phenomena, deemed inconsistent with the Group's risk profile.

of 2015 the Group carried out two new securitisations: (i) Siena Consumer 2015 relating to a portfolio of dedicated, personal and car loans, originated by Consum.it and the senior securities of which – similarly to the preceding transaction – have been placed through a private placement with institutional investors; and (ii) Siena PMI 2015, related to a portfolio of loans to small and medium enterprises originated by BMPS, the senior securities of which even in this case have been placed through a private placement with institutional investors.

In January 2016 the Group finalised a securitisation, Siena Lease 2016-2, on a credit portfolio deriving from leasing contracts originated by MPS Leasing & Factoring and the senior securities of which have been placed with institutional investors.

In June 2016, the securitisation Siena Mortgages 09-6 (II series) has been closed early; in the context of the transaction, the Issuer repurchased from the vehicle Siena Mortgages 09-6 S.r.l. the entire residential loans portfolio for a residual value as at 25 May 2016 equal to Euro 1,536,363,443.86, and the vehicle fully redeemed the outstanding notes. This being a transaction without derecognition, the early closure did not give rise to impacts on the financial statement.

On 30 September 2016, BMPS assigned to Siena PMI 2016 S.r.l. a portfolio of loans to small and medium enterprises, originated by BMPS, for a residual value as at 23 September 2016 equal to Euro 1,739,759,866.52. On 27 October 2016, the notes issuance by the vehicle Siena PMI 2016 S.r.l. was finalised; the notes have been fully subscribed for by BMPS.

In the first semester of 2017 BMPS did not carry out any other securitisation transactions. On 27 June 2017, a re-tranching of the notes of the Siena Consumer 2015 transaction was finalised, with an increased outstanding nominal of senior classes, placed in the form of private placement with institutional investors, and contextually reduced outstanding nominal of the more subordinated classes. The restructuring concerned the sole structure of liabilities maintaining unchanged the underlying loan portfolio, with no further assignment.

The structure, generally adopted in securitisation transactions realised, provides for the Group to assign the identified assets to a special purpose vehicle and to purchase the junior, mezzanine and senior tranches thereof.

Assets assigned to special purpose vehicles have usually not been deleted from the Group's consolidated financial statement. Therefore, the risk relating to such transactions is showed in the financial statement by virtue of retention at balance sheet assets level of the receivables subject matter of assignment, which then continue to be fully evaluated, based on the expected cash flows actualised at the original interest rate. As at 31 December 2016, exposures in junior Notes assumed by the Group recorded an overall value of Euro 5 million, down compared to Euro 6.7 million as at 31 December 2015 (see Table C.1 and C.2 of the Consolidated Notes, Parte E, of the Report and Financial Statement 2015, pp. 360 and 361 and Table C.1 and C.2 of the Consolidated Notes, Part E, of the Report and Financial Statement 2016, pp. 336 and following).

For the sake of completeness, as a consequence of the restructuring of the "Chianti Classico" transaction launched in December 2013 and closed in April 2014, the nominal value of Casaforte ABS securities outstanding as at 30 September 2017, net of repurchases carried out, is equal to around Euro 152.5 million (of which around Euro 114 million relates to A Class).

Risks associated with the Group's asset valuation assumptions and methodologies

In accordance with the regime laid down by the International Accounting Standards, the Group prepares evaluations, estimates and hypotheses which affect the application of the same standards and reflect themselves on assets, liabilities, costs and revenues amounts recorded in the financial statement. The estimates and relating hypotheses are based on previous experiences and other factors considered reasonable in the specific circumstances and are adopted for assets and liabilities the book value of which cannot be easily derived from other sources.

In particular, the Group adopts estimate processes in support of the book value of the most important financial statement items. The elaboration of such estimates entails the use of available information and the adoption of subjective evaluations. By their nature, estimates and assumptions used may vary from year to year and, accordingly, it cannot be excluded that in the coming years the values currently recorded in the financial statement may vary, also to a significant extent, after changes to subjective evaluations used. Such estimates and evaluations are thus difficult and bring along inevitable uncertainty elements, also in the presence of stable macroeconomic conditions.

Estimation processes are largely based on the future recoverability of the values recorded in the financial statement in accordance with the rules laid down by the applicable provisions, with a view of business continuity, i.e. disregarding cases of forced liquidation of the item under evaluation.

The estimation uncertainty risk is substantially embedded in the determination of the following values:

- fair value relating to illiquid items, not listed on active markets;
- impairment losses on receivables and, in general, financial assets;
- fairness of the value of equity interests, tangible assets, goodwill and other intangible assets;
- liabilities for the estimate of severance indemnity and other defined benefits due to employees;
- provisions for risks and charges; and
- recoverability of advanced taxes,

the quantification of which is mainly linked both to the evolution of the national and international environment, and to the performance of financial markets, with consequent impacts on the performance of rates, the fluctuation of prices, the assumptions of actuarial estimates and, more in general, the creditworthiness of counterparties.

Estimation processes are particularly complex in consideration of the persisting uncertainty to be found in the macroeconomic and market environment, characterised both by relevant volatility levels in the financial parameters crucial for the purpose of the evaluation, and still high credit quality deterioration parameters.

The parameters and information used to estimate the abovementioned values are then significantly impacted by the aforementioned factors, in respect of which it cannot be excluded that a worsening of the related performance may give rise to negative effects on the items under evaluation and, ultimately, on the operating results and the economic, capital and/or financial condition of the Bank and/or the Group.

The risks associated with the uncertainties concerning the use of estimates for the assessment of loans and financial instruments measured at fair value on recurrent basis classified in correspondence to Level 3 in the fair value hierarchy are shown below.

Loans to customers

As at 30 September 2017, the Group's net loans to customers amount to Euro 91,041 million (Euro 106,693 million as at 31 December 2016) and represent one of the valuation items exposed the most to the choices made in the matter of risk delivery, management and monitoring. In detail, the Group manages financed counterparties' default risk, by monitoring on an on-going basis the evolution of relations with customers for the purpose of assessing repayment capacity, on the basis of their economic-financial condition, and the presumable realisation value of real estate properties and collaterals. Such monitoring activity allows to intercept loan impairment signs and accordingly to assign value adjustments on an analytical or flat-rate basis, the latter calculated taking into account the default probability and historically recorded losses on loans with homogeneous characteristics. For loans in respect of which no objective loss evidence has been identified on a singular basis, a collective assessment process is activated on the basis of loss percentages built on historical series, appropriately adjusted to take into account current conditions as at the valuation date. In this respect, it has to be noted that the new IFRS 9 accounting standard will introduce significant changes, for the description of which reference is made to the subsequent Paragraph "*Risks associated with the entry into force of the new Accounting Principles and the amendment of applicable Accounting Principles*". In assessing loans, not only final data and certain information existing as at the drafting date of the financial statement are of key relevance, but also other factors such as:

- the reference context, at macroeconomic and legislative-regulatory level, affecting the management view in terms of future and rigour expectations in the assessment process. Said context is of particular relevance given the prolonged nature of the current economic and financial crisis, which may entail a further deterioration of debtor customers;
- the outcome of the application of cash flow predictive models which it is expected single debtors (or portfolios of homogeneous debtors under a risk profile) will be able to pay to fulfil, in whole or in part, the obligations undertaken to the Group. In the context of a range of possible approaches relating to the estimate models permitted by reference to international accounting standards, resorting to a methodology or selecting certain estimate parameters may significantly affect the assessment of

loans. Such methodologies and parameters are necessarily subject to an on-going update process for the purpose of better representing the presumable realisation value.

In particular, for Impaired Loans the definition of a different portfolio perimeter to be subjected to flat-rate assessment, typically represented by exposures of lower amount, may involve the detection of further adjustments compared to those recorded on the basis of an analytical assessment; in this respect it cannot be excluded that the Group, with a view of making the credit monitoring mechanisms more efficient, may widen the impaired loan portfolio assessed according to a flat-rate approach, in order for credit recovery dedicated structures to be more focused on the collection activity and on the assessment of counterparties with more relevant exposures.

It cannot therefore be excluded that different monitoring criteria or different methodologies, parameters or assumptions in the estimate process of the recoverable value of the Group's credit exposures may determine significantly different evaluations compared to those of the 2017 semi-annual financial report, also after a possible further worsening of the economic-financial crisis, with consequent impact on the economic and financial and condition of the Group.

The assessment of loans is affected by the strategies put in place by the Group for the recovery thereof; in the presence of a recovery strategy based on the assignment to third parties, the valuation perspective will necessarily be based on the foreseeable transaction price with the prospective purchaser. Such measurement criterion may however intervene to the extent that the assignment of the credit portfolio is deemed highly likely to occur; this latter assessment which is subject to significant judgement elements may accordingly affect, even materially, the economic and financial and condition of the Group.

For more details on the risks associated with the assignment of Impaired Loans reference is made to "*Risks associated with assignments of Impaired Loans*" above.

<u>Determination of financial instruments' fair value (financial assets and liabilities)</u>

In the presence of complex or illiquid financial instruments, for which quotations or parameters observed on active markets are not available, it is necessary to resort to valuation models and parameters, the selection of which is affected by some margins of subjectivity.

Assets valuated at fair value on a recurrent basis and classified in correspondence of Level 3 in the fair value hierarchy as at 30 September 2017 amount to Euro 297.3 million (Euro 322 million as at 31 December 2016); they are assets for which the measurement of fair value is based to a relevant extent on inputs not coming from the market, involving estimates and assumptions by the management. As at 30 September 2017, the impact of financial assets evaluated at fair value and classified within Levels 2 and 3 of the hierarchy compared to total assets evaluated at fair value on a recurrent basis is equal to 17.0 per cent. and 1.2 per cent. respectively (20.7 per cent. and 1.2 per cent. as at 31 December 2016).

It cannot, accordingly, be excluded that the selection of alternative models and parameters may entail negative effects, even significant, on the economic, capital and financial condition of the Group. The ECB, by letter dated 27 June, informed the Bank of the fact that in the course of the first semester of 2018, the Bank will be subject to the SREP stress test, the findings of which will be factored in the overall assessment of the 2018 SREP. The SREP stress test, although containing some simplifications compared to the stress test conducted in 2016 according to the EBA's EU-wide modalities, replicates in substance its content and purpose. Accordingly, the outcomes of the 2018 SREP stress test, as well as the 2016 stress test, will be factored in the preparation of the 2018 SREP Decision. As at the date of the document, the parameters to be applied for the 2018 stress test not being known yet, nor the impacts thereof on the assessment of financial assets or the related effects on the Group's economic, capital and financial conditions can be quantified.

For the risks associated with the verification of recoverability of goodwill, other intangible assets, equity interests and tangible assets, reference is made to "*Risks associated with goodwill and other intangible assets impairments*" and "*Risks associated with the assignment and evaluation of equity interests*" above.

For uncertainties linked to the estimates of the provision for risks and charges for legal actions and tax disputes as well as to the recoverability of advanced tax assets, reference is made to "*Risks relating to DTAs*" and "*Risks deriving from tax disputes*" below.

For further details on assessment processes, reference is made to the 2016 Report and Financial Statement (Consolidated Notes, Part A – "Accounting Policies", pp. 113 et seq.) and the 2017 semi-annual Financial Report (Consolidated Notes, Part A – "Accounting Policies", pp. 32 et seq.).

Risks associated with the market value of owned properties

In recent years, the Italian real estate market continued to record a downfall of investments both in residential and non-residential buildings, with corresponding reductions in the sale-purchase of properties mainly a result of the economic uncertainty, challenging perspectives of the labour market, decreased disposable income, as well as exacerbated of the tax burdens on the various type of properties.

The BMPS Group evaluates owned properties at cost, net of accumulated amortisations and of possible losses in value. Buildings are systematically amortised using the straight-line method based on the expected useful life, while land is not subject to amortisation since its usefulness is indeterminate.

In compliance with the indications provided by the international accounting principle IAS 36 ("Reduction of asset value") and with the recommendations provided for in document no. 4 of 3 March 2010 jointly issued by the Bank of Italy, CONSOB and ISVAP (now IVASS), for the financial year ending 31 December 2016 and 31 December 2015, a general assessment of the real estate assets has been conducted aiming at finding value losses, if any, to be allocated to the income statement for the financial year.

Taking into account the fair value review associated with the asset quality review, the opportunity had emerged as at 31 December 2014 to apply write-downs on the real estate assets of the BMPS Group for Euro 11 million, the Issuer asked to receive new estimates on all items in respect of which, in the context of the asset quality review, a write-down opportunity had emerged. Based on such estimates BMPS Group recorded, as at 31 December 2014, adjustments equal to approximately Euro 4 million (compared to Euro 11 million as emerged in the context of the asset quality review). In any case, it has to be noted that the Bank carried out a broader assessment of the real estate assets values which entailed, for the financial year ending 31 December 2014, overall adjustments equal to Euro 41.3 million.

The valuation of further extraordinary elements, not known as at the date of this Base Prospectus, compared to those used may lead to a different determination of the value of owned properties and entail in the future the need for further adjustments of the same properties' value. Each such factor may have a negative effect on the assets and the capital, economic and/or financial conditions of the Bank and/or the Group.

Furthermore, pursuant to the commitment given by the Bank within the Restructuring Plan, the Bank, in accordance with the relevant terms and conditions, shall proceed with the closure of Perimetro Gestione Proprietà Immobiliari S.c.p.a. and the assignment of real estate assets for a value equal to Euro 500 million. For further information on the commitment and on the risks related to the implementation of the Restructuring Plan, reference is made to "*Risks associated with the failed realisation of the Restructuring Plan*" above and "*Banca Monte dei Paschi di Siena S.p.A. – Major Events – Recent Developments – 2017 – Restructuring Plan 2017 – 2021*" of this Base Prospectus. It has to be noted that, in light of the above, considering the uncertainties surrounding the real estate market in Italy, it is not possible to exclude that such real estate assets will be assigned at lower prices compared to their book value (*valore di iscrizione in bilancio*), with possible negative effects on the economic condition of the Bank.

Risks relating to DTAs

As at 30 September 2017, deferred tax assets ("**DTA**") amounted in aggregate to Euro 2,904 million (compared to Euro 3,297 million as at 31 December 2016), of which Euro 1,376 million (compared to Euro 2,367 million as at 31 December 2016) is eligible to be converted into tax credit pursuant to Law of 22 December 2011, no. 214 ("**Law 214/2011**").

Law 214/2011 provided for the conversion into tax credits of DTAs referred to write-downs and credit losses, as well as those relating to the value of goodwill and other intangible assets (so called DTAs eligible for conversion) in case the company records a loss for the period in its individual financial statement. The conversion into tax credit operates with respect to DTAs recorded in the financial statement in which the loss is recognised and for a fraction thereof equal to the ratio between the loss amount and the company's equity.

Law 214/2011 further provided for the conversion of DTAs also in the presence of a tax loss, on an individual basis; in such case, the conversion operates for the DTAs recognised in the financial statement versus the tax loss for the portion of the same loss generated by the deduction of the above illustrated negative income components (write-downs and credit losses, goodwill and other intangible assets).

In such legislative framework, accordingly, the recovery of DTAs eligible for conversion seems guaranteed for the Issuer also in case the latter does not generate adequate future taxable income capable of ordinarily absorbing the deductions correspondent to DTAs recorded. The tax regime introduced by Law 214/2011, as stated in the Bank of Italy/CONSOB/ISVAP (now IVASS) document "Accounting treatment of deferred taxes deriving from Law 214/2011" no. 5 of 15 May 2012, in granting "certainty" to the recovery of DTAs eligible for conversion, impacts in particular on the recoverability test laid down by accounting standard IAS12, basically making it automatically satisfied. Even the regulatory legislation provides for a more favourable treatment for DTAs eligible for conversion compared to the other types of DTAs; the first in fact, for the purpose of the capital adequacy requirements the Group shall comply with, do not constitute negative elements at equity level and are included among Risk Weighted Assets with a 100 per cent. weighting.

In relation to DTAs eligible for conversion pursuant to Law 214/2011, article 11 of Law Decree no. 59/2016 subjected the possibility to continue to apply the above described regime in the matter of conversion into tax credits of advanced tax assets to the exercise of a specific irrevocable option and the payment of an annual fee ("**DTA fee**") to be paid with reference to each of the financial years starting from 2015 and subsequently, if annual requirements are met, until 2029. As clarified in the press release of the Council of Ministers of 29 April 2016, such provision was necessary to overcome the doubts raised by the European Commission on the existence of "State aid" components in the legislative framework relating to deferred tax assets then in force.

In more detail, the fee for a specific financial year is determined by applying the 1.5 per cent. rate to a "base" obtained by adding to the difference between DTAs eligible for conversion recorded in the financial statement of such financial year and the corresponding DTAs recorded in the 2007 financial statement, the overall amount of conversions into tax credits operated until the relevant financial year, net of taxes, identified in the Decree, paid with respect to the specific tax periods established in the same Decree. Such fee is deductible for the purpose of income taxes.

The Bank exercised the aforementioned option by paying the fee, within the set deadline of 31 July 2016, for the amount of Euro 70.4 million, due for 2015.

Subsequently, the article 26-*bis* of Law Decree 237/2016 amended the article 11 of Law Decree 59/2016, substantially moving the DTA fee's reference period from 2015-2029 to 2016-2030. Consequently, the fee already paid on 31 July 2016 in relation to 2015 shall be now deemed deferred, the amount remaining unchanged, to 2016; the Bank also proceeded with the payment of the fee due for 2017 for the amount of Euro 70.9 million.

In relation to the expected evolution of the amount of DTAs eligible for conversion please note that, as a consequence of the rules introduced by Law Decree no. 83/2015 (converted by Law 6 August 2015 no. 132), such amount may no longer be increased in the future. Specifically, from 2016 the pre-requirement for the recognition of DTAs from write-downs and credit losses ceased, having those negative income items become fully deductible.

In relation to DTAs relating to goodwill and other intangible assets, if recognised in the Financial Statement from 2015 onwards, they will no longer be eligible for conversion into tax credits due to the effect of aforementioned Law Decree 83/2015.

Moreover, it should be noted that Law Decree no. 83/2015, by recognising the immediate deductibility of write-downs and credit losses, entailed for financial years subsequent to 2015 a relevant reduction of IRES (and IRAP) taxable income for the MPS Group, extending, as a result, the time horizon for the absorption of tax losses and prior EGS surplus and, accordingly, for the DTAs associated with such losses and surpluses. To the contrary, the failed recognition among DTAs eligible for conversion of DTAs relating to goodwill and other intangible assets recorded since 2015, introduced by Law Decree no. 83/2015, had no impact on the MPS Group.

In light of the above, the main types of deferred tax assets recognised in the Financial Statement 2016 and in the semi-annual Financial Report 2017 are highlighted below.

Deferred tax assets relating to write-downs and credit losses as at 30 September 2017 amounted to Euro 734 million (Euro 1,232 million as at 31 December 2016) and is naturally destined to reduce itself over time as a consequence of the progressive conversion thereof from deferred to current, until its coming to zero in financial year 2025, according with the time mechanism predefined by the tax provisions in force (Law Decree no. 83/2015). Deferred tax assets relating to goodwill and other intangible assets freed up as at 30 September 2017 amounted to Euro 576 million (Euro 1,070 million as at 31 December 2016), is equally naturally destined to reduce itself over time as a consequence of the progressive conversion thereof from

deferred to current. The tax amortisation of such assets in fact, takes place on a straight line basis over more financial years. On the contrary, no possible increases are currently foreseen, which may exclusively derive from the freeing up of the goodwill recorded as a consequence of the possible acquisition of new equity interest or business units.

Deferred tax assets relating to administrative costs deductible in financial years subsequent to those of recognition in the Financial Statement (allocations to the provision for risks and charges, costs associated with capital increases, etc.) amount as at 30 September 2017 to Euro 282 million (Euro 328 million as at 31 December 2016). Deferred tax assets relating to capital losses recorded in the specific equity valuation reserves are equal to Euro 203 million as at 30 September 2017 (Euro 215 million as at 31 December 2016). Such reserves represent the fair value movements of cash flow hedging derivatives and securities recorded in the Financial Statement assets under item "financial assets available for sale".

As at 30 September 2017, DTAs are, furthermore, recognised as tax losses for Euro 870 million (Euro 293 million as at 31 December 2016) and EGS surpluses for Euro 134 million (Euro 97 million as at 31 December 2016). EGS surpluses refer to the portion of tax incentive known as "Economic Growth Support" (EGS) introduced by art. 1 of Law Decree no. 201/2011 not used in the prior financial years, due to insufficient taxable income. It has to be noted that such incentive provides, for companies that have increased their capital resources compared to the respective size as at 31 December 2010, for the right to operate a downward amendment to their taxable income by an amount equal to the notional return on the capital increase realised. This downward amendment is recognised for the financial year in which the capital increase took place, as well as for each of the subsequent years and, in case of insufficient taxable income of one of those, may be deducted from the following years' income.

The notional return is valuated, for the tax period current as at 31 December 2017, as equal to 1.6 per cent. and 1.5 per cent. for subsequent periods (measures currently set by article 7 of Law Decree no. 50/2017). Although the carry forward of tax losses and EGS surpluses is not subject – according to the tax regime in force – to any time limit, regulatory provisions concerning the respective DTAs provide for a more unfavourable treatment compared to that of the other DTAs not eligible for conversion into tax credits pursuant to Law no. 214/2011, since they are deducted from equity according to the phasing-in percentages without the benefit of the excess mechanism.

DTAs for tax losses and EGS surpluses, together with the other DTAs not eligible for conversion into tax credits pursuant to Law no. 214/2011, have been recorded in the interim Financial Statement 2017,as well as in Financial Statement 2016, to the extent the existence of future taxable income has been reasonably proved, as derived from the business plan most recently approved by the board of directors, sufficient to guarantee their absorption in the coming financial years (*probability test*). Furthermore, in the interim Financial Statement as at 30 September 2016, the execution methodology of the probability test provided for by IAS 12 for the recognition of DTAs has been reviewed. The methodological evolution was necessary in light of unrealised tax losses, the tax loss being created in 2016 and the consequent deviation compared to expectations, as well as the planned derecognition transaction of Doubtful Loans which, in combination, extended the time horizon for the recovery of deferred tax assets. The decision to update such methodology further derived from the amendments intervened in the tax regime, such as, specifically, the amendment to the tax regime of loans to customers adjustments (Law Decree 83/2015), which now provides for the full deductibility thereof in the financial year in which they are recognised.

The methodological evolution introduced in the probability test consists in the application of an increasing discount factor to future taxable income (so called risk adjusted profits approach) so as to reflect with the highest reasonableness possible the probability of its occurrence. Such complex methodology, applied to the most recent forecasts on the Group's future profitability as provided for in the new business plan, determines, as at 30 September 2017, the failed recognition of DTAs potentially accrued from tax losses and EGSs for Euro 1,670 million (Euro 1,070 million as at 31 December 2016).

In this respect, where for any reason, currently unpredictable, the aforementioned future taxable income should result lower than that estimated, and not be sufficient to guarantee the reabsorption of the DTAs under examination or significant changes should occur to the current tax regime, negative effects, even material, could impact on the business and the economic, capital and/or financial condition of the Bank and/or the Group.

Risks deriving from tax disputes

The Bank and the main Group's companies are subject to several tax proceedings.

As at the date of this Base Prospectus, around 60 cases are pending, for an overall amount of around Euro 130 million for taxes and sanctions. The value of disputes also includes that associated with tax verifications closed, for which no dispute is currently pending since the tax authority has not yet formalised any claim or contestation.

Pending disputes with likely unfavourable outcomes are of limited number and amount (lower than Euro 8 million) and are guarded by adequate allocations to the overall provision for risks and charges.

On 27 April 2016, the Guardia di Finanza, department of Siena (Tax Police Department), started a tax audit against the subsidiary Consorzio Operativo Montepaschi Group, for the purpose of direct taxes, VAT and IRAP (Italian regional tax on productive activities), for the period between 1 January 2011 and 27 April 2016.

At the end of the verification, on 20 October 2016, contestation minutes were notified to the company, with which, for financial years 2011 to 2015, higher taxes have been contested for Euro 17.5 million, for IRES (corporate income tax) and IRAP purposes, and for Euro 9.1 million for VAT purposes, plus the relating legal sanctions, not estimated. On 13 December 2016, the company, although still convinced of the correctness of its behaviours but with a view of business cost effectiveness, adhered to the assessment proposal prepared by the same financial administration in relation to the sole 2011 financial year that, however, with regard to certain contestations for VAT purposes, produced effects also on the following tax periods subject to the assessment. In particular, such agreement provided for: (i) the cancellation of all contestations for IRES and IRAP purposes related to 2011, for an overall amount of Euro 11.7 million as taxes, (ii) the partial acquiescence to VAT contestations referred to 2011, for a higher tax equal to Euro 7.9 million, (iii) the cancellation of contestations for VAT purposes concerning also periods following to 2011, equal to around Euro 1.2 million as taxes, and (iv) the almost full cancellation of sanctions (with no prejudice of the abovementioned). Such adhesion entailed the payment of higher VAT, interests and sanctions to a reduced extent for an overall amount equal to Euro 9.3 million (of which 7.9 million for higher tax and 1.4 million for sanctions and interests). In this respect, it has to be further noted that, by virtue of specific agreement entered into on 6 December 2016 with the relevant contractual counterparties (involved in the transactions subject matter of the VAT contestations), the company started the actions for recovering against such counterparties, pursuant to an action in recourse, an amount of around Euro 5.4 million, reducing, by doing so, the overall charges deriving from the above adherence to an amount (Euro 9.3 million) of around Euro 3.9 million. In relation to 2011, VAT contestations which were not included in the aforementioned adherence, on 22 December 2016 the financial administration notified a sanctioning deed, for an amount of around Euro 0.4 million, in respect of which the company filed a defensive brief on 16 February 2017.

In conclusion, as a consequence of the aforementioned adherence (specifically for the cancellation of certain contestations for VAT purposes which also concerned tax periods subsequent to 2011), higher taxes challenged in the verbal process of verification, following the verification activity abovementioned, were reduced to an overall amount equal to Euro 5.8 million (for IRES and IRAP); at the same verbal process of verification, potential sanctions are associated (for IRES, IRAP and VAT) for an estimated value of additional Euro 2.6 million. The company, assisted by its consultants, is assessing the appropriate initiatives in protection of its interests and deems that the particular cases subject to contestation in the context of such tax assessment do not have any recurring effect on the years following 2015.

On 23 May 2017, the Tax Authority, Tuscany Regional Direction, started a verification on the incorporated Consum.it S.p.A., for IRES, IRAP, VAT and Withholding Tax purposes for the tax period 2014. After the completion of the verification, on 25 September 2017, the Bank received a formal notice of assessment, establishing that a higher amount shall be paid as IRAP for Euro 123,000 approximately.

Finally, on 22 December 2016, the inland revenue, regional office for Toscana, sent a request for clarifications to the Bank with regard to the supplementary tax return concerning the tax period 2012, to which the Bank duly answered on 31 January 2017. Afterwards, as proposed by the Regional office, a meeting was held on 13 September 2017 to discuss the actions which should be taken to comply with the provisions of law governing tax substitutes in connection with the FRESH (Floating Rate Equity Linked Subordinated Hybrid Preferred Securities) instrument, issued as a part of the complex recapitalisation transaction performed in 2008, the income from which was posted in the abovementioned supplementary tax return. A report containing the minutes of the discussion was drafted at the end of the meeting, highlighting that the issue needs to be further examined. On 15 September 2017, the Regional office sent a request whereby further clarifications were required and the investigation was extended to the financial years from 2008 (included) to 2014 (included). The Bank, with the assistance of its advisors, filed a memorandum on 11 October 2017 in order to prove to have duly acted and provide evidence thereof. Subsequently, within the context of a complex technical

discussion, the regional office has supposed the failed deduction's application to the payments executed in favour of the counterparty – at least over a part thereof – and the Bank restated the reasons behind the fairness of its conduct.

As at the date of the Base Prospectus, the verification is still on-going and no contestations of relevance are expected.

Notwithstanding the evaluations effected by the Bank, the Group companies and the respective consultants, it cannot be excluded that an unfavourable verdict in pending proceedings and/or the commencement of new proceedings, even as a result of the aforementioned on-going tax assessment, may involve increased tax risks for the Bank and/or the Group, with the consequent need to effect additional provisions or disbursements, with possible negative effects on the business and the capital, economic and/or financial conditions of the Bank and/or the Group.

Risks associated with the organisation and management model pursuant to Legislative Decree 231/2001

The Issuer adopted its own organisation and management model as provided for by Legislative Decree 231/2001, setting up a set of rules suitable to prevent the adoption of unlawful behaviours by top managers, managers and/or employees.

The adequacy of the model to prevent the crimes contemplated by the legislation is a pre-condition exempting the Issuer from liability. Such requirement, however, is assessed by the judicial authority possibly called to verify the single crime cases and not ascertained in advance. For those reasons and in compliance with the provisions of the aforementioned Decree, the Bank set up a specific supervisory body in charge of supervising over the functioning of and compliance with the model and taking care of its update.

Accordingly, there is no certainty on the exemption from liability for the Bank in case of material offence pursuant to Legislative Decree 231/2001. Should the model not be deemed suitable, the application of a monetary sanction is in any case provided for in respect of all crimes committed, in addition to, for the most serious cases, the possible application of interdiction sanctions(i.e. the interdiction from the exercise of business, the suspension or withdrawal of authorisations, licences or concessions, the prohibition to contract with the public administration, as well as, finally, the prohibition to advertise goods and services). Furthermore, the current regime provides that – in case of conviction judgment of the entity pursuant to Legislative Decree 231/2001 – the confiscation of the price or profit of the crime may be ordered, even by equivalent, in addition to the application to the same entity of monetary and interdiction sanctions, with possible negative effects on the business and the economic, capital and/or financial condition of the Bank and/or the Group. Furthermore possible convictions of the entity pursuant to Legislative Decree 231/2001 may have reputational impacts even significant on the Bank and/or the Group, with consequent possible negative effects on the business and the economic, capital and/or financial condition thereof.

As at the date of the Base Prospectus, the Bank was indicted (for administrative liability profiles of entities pursuant to Legislative Decree no. 231/2001) in the context of proceedings initiated by the Public Prosecutor's Office at the Courts of Forlì against various natural persons and three legal persons for money laundering and obstruction to the supervisory authority crimes. The Bank was charged with three administrative offences deriving from crimes: (i) of obstruction to the exercise of the functions of public supervisory authorities (art. 2638 of the Italian Civil Code); (ii) of money laundering (art.648-*bis* of the Criminal Code); and (iii) of criminal association (art. 416 of the Criminal Code), of a transnational nature. The same Courts of Forlì at the hearing of 12 February 2015 declared its incompetence, deeming competent, in respect of the charges against the Bank, the Courts of Rimini. The aforementioned Courts of Rimini, with order of 3 March 2015, raised on the matter a negative conflict of territorial competence referring to the Supreme Court of Cassation the documents necessary for the decision on the identification of the competent Court to know the proceedings. The Court of Cassation deemed that, for the aspects of confirmation of pre-trial measures submitted for its evaluation, the documents of the proceedings should be transferred to the competent Courts of Forlì. The PHJ of the Courts of Rimini, the venue to continue the proceedings having to be determined, at the hearing of 28 April 2016, denied its territorial competence to know the merits thereof, in favour of the Courts of Forlì, raising a negative conflict of competence and referring the documents to the Supreme Court of Cassation for the resolution of the conflict. On 13 December 2016 the hearing was held before the Court of Cassation for the resolution of the conflict, and it was determined that the Courts of Forlì were competent, and accordingly the hearing to discuss shall be held on 1 December 2017 before such Courts.

Following the mandatory charge ordered by the judge of the preliminary investigation of Milan for the crimes of false corporate communications and market manipulation, the Bank has been included in the register of the

suspects for the administrative offences pursuant to art. 25-*ter*, lett. b) and art. 25-*sexies* of Legislative Decree 231/01.

In such matter – related to the process of accounting of the Alexandria and Santorini transactions following the restatement occurred in 2013 –the public prosecutor's office at the Court of Milan requested to drop the charges made in respect of Mr. Profumo, Mr. Viola and Mr. Salvadori. Such request was not granted. Against the abovementioned officers, the indictment has been requested and the Bank has been charged as administrative accountable entity pursuant to the Legislative Decree 231/2001.

At the preliminary hearing of 29 September 2017, the pending proceeding against the Bank as administrative accountable entity has been merged in the one pending against the individuals.

For the sake of completeness, the proceeding for administrative offences pursuant to Legislative Decree 231/01, in relation to the criminal proceeding commenced against Mr. Profumo and Mr. Viola for the hypothesis of obstruction of the exercise of supervisory functions (art. 2638 Italian Civil Code), which is currently in the phase of the conclusion of the preliminary investigation, is also pending, before the public prosecutor's office at the Court of Milan.

Risks associated with the possible request to the European Commission by the Italian State of the authorisation to grant "State aid" in case of Bank crisis

"State aid" are authorised by the European Commission only if compatible with the laws of the European Union (see article 107, par. 3, lett. b, of the Treaty on the Functioning of the European Union).

On 30 July 2013 the "*Communication of the European Commission relating to the application, from 1 August 2013, of the provisions on* "*State aid*" *to support measures to banks in the context of the financial crisis*" (the "**Communication**") was published on the Official Gazette of the European Union. Such Communication enhanced the requirements on burden sharing, asking of shareholders and those who have subscribed for subordinated debt or hybrid capital securities to contribute to the recovery of the Bank prior to the granting of "State aid" (so called burden-sharing). Specifically, "State aid" shall not be granted before equity, hybrid instruments and subordinated notes have been fully used to set off possible losses of the Bank (see paragraphs 41-44 of the aforementioned Communication).

Furthermore, as a consequence of the introduction of the new legislative framework on the management of banking crises (the BRRD), public financial support in favour of a bank – potentially falling within the definition of "State aid" as per article 107, par. 1, of the Treaty on the Functioning of the European Union – may be granted only after resolution instruments introduced by the BRRD have been applied.

Specifically, "State aid" notified to the European Commission after 1 January 2016, which determine the resolution under the BRRD, may be granted only in presence of a bail-in of at least 8 per cent. of total liabilities of the bank, which may even require the conversion of Tier 1 debt securities and uncovered deposits. The only exception concerns the extraordinary public financial support, precautionary and temporary, of solvable entities, in the context of which the European Commission, upon occurrence of strictly defined circumstances and subject to the prior verification of compliance with the criteria imposed by the Communication, may authorise the granting of "State aid" outside the scope of the resolution.

In this respect and in accordance with the aforementioned regulatory framework applicable to "State aid", the Bank had to submit to for approval of the European Commission the Restructuring Plan for the purpose of executing the Precautionary Recapitalisation. In this context, again as part of the Precautionary Recapitalisation, even Burden Sharing was applied. In this respect, should the Bank newly access measures eligible for qualification as "State aid" pursuant to the EU regime or amend, in whole or in part, the Restructuring Plan, it shall do it in accordance with the provisions of the above described legislative framework.

Furthermore, it cannot be excluded that the reference legislative framework in the matter of "State aid" may in the future be subject to amendments, even if significant.

Risks associated with the use of reclassified and/or restated and/or redefined financial information

The Base Prospectus contains the Issuer's financial information, relating to the Group's consolidated data for the financial years ending 31 December 2016 and 31 December 2015 and for the nine months ending 30 September 2017, taken from the Report and Financial Statements 2016, Report and Financial Statements 2015 and the Interim Financial Report dated 30 September 2017.

The financial statements 2016 and 2015 were audited, and the condensed consolidated financial statements dated 30 September 2017 and 2016 were subject to limited audit by the independent auditors, who drafted the relevant audit reports. The reports, which contain an unreserved opinion, refer to certain information found in the reports on the Financial Statements 2016 and 2015 and the Interim Financial Statements as at 30 September 2017. In its audit reports concerning the Financial Statements 2016 and 2015, the independent auditor further expressed, as provided for by current regulations, an opinion on the consistency of the report on the Group's operating performance with the consolidated financial statement. For such purpose, the procedures set out in the audit principle (SA Italy) no. 720B for the financial year 2015 were implemented.

The financial statement 2015 contains restated comparative figures based on specific accounting principles.

The figures for the financial year 2014 have been restated in the financial statements 2015, in accordance with the provisions of IAS 8 (Accounting Policies, Changes in Estimates and Errors), also for the purpose of complying with the CONSOB's resolution no. 19459 of 11 December 2015, as well as with the notice initiating the procedure aimed at the adoption of measures set out in article 154-*ter*, paragraph 7 of the Consolidated Finance Act.

In particular, by the aforementioned resolution, CONSOB found, following the completion of the investigation, that the consolidated financial statements and balance sheet 2014 and the interim Financial Statements, as at 30 June 2015, did not comply with the rules governing the preparation thereof (especially with respect to the application of the accounting principles set out in IAS 1, IAS 34 and IAS 39), with particular and exclusive reference to the method used ("open balances" or "closed-balances") to record the accounting entries concerning the Alexandria transaction (closed in September 2015 by special settlement agreement executed between the Bank and Nomura International Plc). In the financial year 2015, the Bank confirmed the accounting choices made during the restatement 2012 and in the subsequent financial years, considering the information available at the time, considered to comply with the supervisory authority's indications and to respect the resolution by implementing, when preparing the financial statements as at 31 December 2015, a restatement pursuant to IAS 8, which reflected retrospectively the figures of the Alexandria transaction in such financial statements, adjusting it such as a credit default swap. The revision of such account records had a negative impact on the Group's net assets, equal to Euro 196.1 million as at 31 December 2014.

Moreover, the Base Prospectus contains information deriving from the reclassification of figures in the statement of income and explanatory notes. Such reclassified figures are extracted from the report on the Group's operating performance in order to discuss the financial operating performance and with the specific aim of allowing a homogenous comparison between the financial results and balance sheet results and they have not been audited by an independent auditor, although they were audited for consistency with the consolidated financial statements.

Finally, the Base Prospectus contains financial information that cannot be found in the Financial Statements 2016 and 2015 and in the interim Financial Report 2017, taken from the Bank's account records.

Therefore, in certain cases, the Base Prospectus may contain several figures referring to the same financial statement items. Finally, it may be difficult to compare financial data of audited financial statements with reclassified and restated financial statements that have not been audited. Investors are therefore asked to pay particular attention to such comparisons.

RISK FACTORS RELATING TO THE MARKET IN WHICH THE ISSUER AND THE GROUP OPERATE

Risks associated with the evolution of the banking and financial sector regulation and of the additional provisions the Group is subject to

The Group is subject to complex regulations and, in particular, to the supervision of the Bank of Italy, CONSOB and, in relation to a number of aspects of the bancassurance business, the IVASS. Starting from 4 November 2014, furthermore, the Group is also subject to the supervision of the ECB, which is entrusted, pursuant to the regime establishing the Single Supervisory Mechanism, with the duty to, *inter alia*, insuring the homogeneous application of the Euro Area legislative provisions.

In particular, the Group is subject to the primary and secondary legislation applicable to companies with financial instruments listed on regulated markets, the legislation in the matter of banking and financial services (governing, *inter alia*, the sale and placement activities of financial instruments and the marketing thereof), as well as the regulatory regime of the countries, even other than Italy, in which it operates. The

supervision by the aforementioned authorities covers various sectors of the Issuer business and may concern, *inter alia*, liquidity, capital adequacy and financial leverage levels, the prevention and combating of money laundering, privacy protection, transparency and fairness in the relations with clients, and reporting and recording obligations.

For the purpose of operating in accordance with such legislations, the Group put in place specific internal procedures and policies and adopted, pursuant to Legislative Decree 231/2001, a complex and constantly monitored organisational model. Such procedures and policies mitigate the possibility of violations in the various legislations to occur, which may cause negative impacts on the business, reputation as well as the capital, economic and/or financial condition of the Bank and/or of the Group.

In general, the international and national legislative structure to which the Group is subject has the main purpose of safeguarding the stability and soundness of the banking system, through the adoption of a very complex regime, aimed at containing risk factors. To achieve these goals, the regime provides for, *inter alia*:

- a minimum capital holding, adequate to deal with the company's size and the risks associated with;
- quantitative and qualitative limits in the ability to develop certain financial aggregate data, even depending on the risks associated therewith (e.g. credit, liquidity);
- strict rules in the structure of controls and compliance system; and
- rules on corporate governance.

The above shall also be accompanied by the more demanding rules adopted by international authorities in the matter of banks' capitalisation. In this respect, the Basel committee for banking supervision approved the substantial enhancement of minimum capital requirements and amendments to the regulation in the matter of liquidity of banking institutions (Basel III, as defined below). At EU level, Basel III has been transposed in the CRD IV and CRR (both as defined below). In Italy, the new EU regime for banks was first transposed by the Bank of Italy, to the extent of competence, in Circular no. 285 of 17 December 2013 (as subsequently amended from time to time by the Bank of Italy (the "**Circular No. 285**")) which came into force on 1 January 2014, and, more recently, on 8 May 2015, by the Council of Ministers which approved the legislative decree amending the Banking Act and the Consolidated Finance Act. Specifically, the CRD IV contains, *inter alia*, provisions in the matter of authorisation to the exercise of the banking business, freedom of establishment and free provision of services, cooperation between supervisory authorities, prudential control processes, methodologies for the determination of capital reserves (*buffer*), regime of administrative sanctions, rules on corporate governance and remunerations, while the CRR, the provisions of which are directly applied within each Member State, defines, *inter alia*, the provisions in the matter of own funds, minimum capital requirements, limits on large exposures, liquidity risk, leverage and public disclosure.

In more detail, as concerns increased capital requirements, Basel III agreements and the New EU Regime for Banks provide for a transitional phase with always increasing minimum capitalisation levels. In the same transitional phase, specific regulatory deductions from capital aggregate data will furthermore be introduced.

Specifically, in terms of capital requirements, the new regime provides for: (i) a Common Equity Tier 1 Ratio) at least at 4.5 per cent. of the overall amount of the Bank's exposure to risk; (ii) a Tier 1 Ratio at least at 6 per cent. of the overall amount of the Bank's exposure to risk; and (iii) the Total Capital Ratio at least at 8 per cent. of the overall amount of the Bank's exposure to risk.

In addition to Common Equity Tier 1 (necessary to satisfy the aforementioned capital requirements) starting from 1 January 2014, the banks will have to create a Capital Conservation Buffer equal to 1.25 per cent. for 2017, 1.875 per cent. for 2018 and 2.5 per cent. starting from 2019 of the overall exposure to risk.

Furthermore, from 1 January 2016, banks will be obliged to create: (i) a countercyclical capital buffer, to be calculated, with the modalities set out in the same Circular No. 285, on the basis of each bank's overall exposure to risk. The Bank of Italy published, for the four quarters of 2016 and 2017, the decision by which it set at zero per cent. the countercyclical capital buffer ratio applicable to exposures to Italian counterparties; and (ii) should they be qualified as global systemically important institutions – globally systemically important institutions ("**G-SIIs**") (the so called "Capital Buffer for G-SIIs"); and/or (iii) should they be qualified as other systemically important institution – other systemically important institutions ("**O-SIIs**") (the so called "Capital Buffer for O-SIIs").

On 30 November 2016, the Bank of Italy identifies the UniCredit, Intesa Sanpaolo and Monte dei Paschi di Siena banking groups as other systemically important institutions, and O-SIIs authorised in Italy for 2017.

The Bank of Italy also determined that the three groups shall have to maintain, at full steam, a capital buffer for O-SIIs – pursuant to supervisory rules – calculated as a percentage of their overall risk weighted exposures, to be reached in four years according to a progressive transitional regime.

Specifically, the Issuer will be subject to a buffer equal to 0 per cent. until 31 December 2017, while such buffer will be equal to 0.06 per cent. starting from 1 January 2018, 0.13 per cent. starting from 1 January 2019, 0.19 per cent. starting from 1 January 2020 and 0.25 per cent. starting from 1 January 2021.
Furthermore, the Bank is bound to comply with the general limit on the investment in equity interests and real estate properties, to be contained within the amount of own funds at consolidated level, and the regulatory limits in the matter of holding of qualifying equity interests in non-financial enterprises and large exposures. The Bank is also subject to the regulatory limits provided for by the national legislation in the matter of transactions with related parties as per the "New Prudential Supervision Provisions" for banks as well as the specific obligations set forth by the regulation issued by CONSOB.

With regard to the calculation modalities of regulatory requirements, the first pillar prudential regime allows, in order to determine weightings in the context of the credit risk standardised approach, for the possibility to use the creditworthiness assessments issued by external credit assessment institutions ("**ECAI**"). BMPS uses the assessments of some ECAIs and, in particular, those issued by Standard & Poor's, Moody's and Fitch. Again, in relation to credit risk, the prudential regime further allows for the possibility to use internal rating-based assessments for the determination of weightings on exposures falling within the validated perimeters that, for the Group, are comprised of the "exposures versus enterprises" and "retail exposures" portfolios for Group companies, BMPS, MPS Capital Services and MPS Leasing & Factoring. In relation to regulatory requirements relating to the trading activity, the Group uses the standardised calculation approach, while for the portion relating to operational risks, the Group has been authorised by the supervisory authority to use advanced AMA models.

With regard to liquidity, the CRR provides, *inter alia*, for compliance with a short term indicator (the "Liquidity Coverage Ratio" – "**LCR**"), aiming at the constitution and retention of a liquidity buffer capable of allowing the Bank's survival for thirty days in case of serious stress, and with a structural liquidity indicator (the "Net Stable Funding Ratio" – "**NSFR**") with a one year time horizon, introduced to ensure that assets and liabilities show a sustainable maturity structure. In respect of such parameters, please note that:

- for the LCR parameter, a minimum value of 80 per cent. from 1 January 2017, and a value of 100 per cent. starting from 1 January 2018 is provided for;
- for the NSFR parameter, while the Basel committee proposal provided for a minimum threshold of 100 per cent. to be complied with as of 1 January 2018, the EU regime (CRR) for the time being contemplates no regulatory limit on structural liquidity.

Furthermore, Basel III provides that banks shall monitor their leverage ratio calculated as the ratio between the Tier 1 capital and the aggregate exposures of the credit institution, according to the provisions of art. 429 of the CRR, as amended and supplemented by delegated Regulation of the European Commission no. 62/2015. Such indicator is subject to reporting obligations by banks starting from 2015, however to date, the minimum threshold and the commencement date of the index at hand has not been defined yet.

Such regulatory evolution, which continues to aim at a higher system stability, although the entry into force thereof is provided to be gradual, may in any case have a significant impact on the Group's management dynamics.

The establishment of new rules on liquidity and possibly increased ratios applicable to the Group based on the laws and/or regulations that will be adopted in the future may have an impact on the business, financial condition, cash flow and operating results of the Group and accordingly, directly or indirectly, on the possibility to distribute dividends to shareholders.

On 10 December 2015, as better detailed below in this paragraph, the Basel committee launched a consultation on a document concerning the review of the standardised approach for the calculation of RWAs, and on 6 April 2016, published a consultation document containing a set of amendments to be applied to the structure of internal rating based approaches for the calculation of credit risk. Furthermore, review processes of the calculation models of requirements for "market risk" and "operational risk" categories are in progress.

Finally, on 14 November 2016, the EBA launched a consultation on a document setting out the guidelines to estimate PD and LGD, as well as for the treatment of defaulted exposures.

In light of the above, the on-going compliance with the several regulations, and namely (taken account of the criteria introduced by Basel III) the need to increase the capital consistency – size remaining unchanged – and compliance with liquidity parameters, require a significant commitment of resources, as well as the adoption of equally complex internal rules and policies which may determine higher costs and/or less revenues for the Issuer and the Group.

On 4 November 2014, the Single Supervisory Mechanism was launched. Specifically, the SSM Regulation assigned to the ECB specific duties in the matter of prudential supervision of credit institutions, in cooperation with the national supervisory authorities of participating countries, in the context of the SSM. With this mechanism the ECB, in close cooperation with the national supervisory authorities, undertook the supervisory competence over all banks of the Euro Area, on a direct basis in case of "significant" banks and on an indirect basis in relation to the other banks, which will continue to be supervised by local authorities on the basis of the criteria set by the same ECB.

Accordingly, the competence for prudential supervision over the Issuer is entrusted to the ECB, being BMPS qualified as significant bank pursuant to article 39 of Regulation (EU) No. 468/2014 of the ECB of 16 April 2014 (SSM Framework Regulation).

The Issuer is also subject to the provisions applicable to the financial services – governing, *inter alia*, the sale and placement activity of financial instruments and marketing ones – and in this context it is also subject, *inter alia*, to CONSOB supervision.

Although the Group constantly deploys significant resources and internal policies adequate to comply with the various applicable legislative and regulatory provisions, it shall be pointed out that failed compliance therewith, or possible legislative/regulatory amendments or changes relating to the interpretation and/or application approaches of the legislation applicable by the competent authorities may entail possible relevant negative effects on operating results and the economic, capital and financial condition of the Group. In this respect, as at the date of the Base Prospectus, some laws and legislations concerning the sectors in which the Issuer operates have been recently approved and the relating application approaches are in the process of being defined.

In order to complete the legislative framework of the provisions applicable to banks, it has to be underlined the directive of the European Parliament and the Council setting up a recovery and resolution framework of credit institutions and investment undertakings (BRRD), identifying the powers and tools national authorities in charge of the resolution of banking crises may adopt for the resolution of a bank's crisis or collapse situation. This for the purpose of guaranteeing continuity of the essential functions of the institution, reducing to a minimum the collapse impact on the economy and the financial system as well as on costs for taxpayers. On 9 July 2015, the enabling act for the implementation of the BRRD was approved, identifying, *inter alia*, the Bank of Italy, as resolution authority pursuant to article 3 of the BRRD. On 16 November, contemporaneously with the publication in the Official Gazette, Legislative Decrees no. 180 and 181 of 16 November entered into force and respectively implemented the BRRD and adapted the provisions of the Banking Act to the changed legislative framework.

With specific reference to the bail-in instrument, please also note the introduction through the BRRD directive of a minimum requirement of liabilities subject to bail-in (MREL), for the purpose of assuring that a bank, in case of an application of bail-in, has sufficient liabilities to absorb losses and assure compliance with the Common Equity Tier 1 requirement provided for the authorisation to exercise the banking business, as well as to generate in the market enough confidence in it. Regulatory technical standards aimed at specifying the criteria to determine the MREL requirement are defined in delegate Regulation EU 2015/1450 published in the Official Gazette of the European Union on 3 September 2016.

On 19 July 2016, the EBA published in consultation an interim report on the MREL, and subsequently, on 14 December 2016, the final report on the MREL, concerning a number of relevant aspects for the implementation of the MREL among which, specifically, the proposals for the harmonisation of the calculation of capital requirements in the various Member States, the opportunity for the MREL to be satisfied resorting to contractual bail-in tools, the identification of a minimum requirement level in respect of the business model identified for institutions and the opportunity to use, as denominator for the MREL requirement, the institution's risk weighted assets. The Group has not so far been bound to comply with a

specific threshold with reference to the MREL (a target level is currently defined by the Single Resolution Board for information purposes only).

On 23 November 2016, the European Commission published a set of amendment proposals to the BRRD (directive 2014/59/EU) in relation to the loss absorption and recapitalisation capacity of credit institutions and the classification of unsecured debt instruments among the hierarchy of loans in case of insolvency. The main amendments introduced by the reform concern, substantially, the structure of the MREL ratio and its level of application, the powers of the resolution authorities in case of breach of MREL and the banks' disclosure obligations to resolution authorities and the public.

In light of the fact that the reference legislative context is still evolving, it cannot be excluded that the introduction of the aforementioned criteria may entail the obligation for the Bank to hold additional resources to own funds and eligible liabilities, with consequent impact on the Group's financial position, cash flow and operating results and accordingly, either directly or indirectly, on the possibility to distribute dividends to shareholders.

The "Financial Stability Board" ("**FSB**") published on 9 November 2015 the final provisions on the "Total Loss Absorbency Capacity" ("**TLAC**") standard concerning "Global Systematically Important Banks" ("**G-SIBs**") – among which, as at the date of the Base Prospectus, the Issuer is not included – and that the European Commission, in the context of the amendment proposal of the BRRD, published on 23 November 2016, introduces the TLAC requirement within the MREL requirement already defined by the EU regime and applicable to all banks.

Accordingly, it cannot be excluded that as joint effects of the two still evolving regulations (the one relating to the MREL and the one relating to the TLAC) an alignment may be derived from the determination criteria of the minimum requirement for own funds and eligible liabilities provided for all EU financial institutions to the more restrictive ones which will be applicable to G-SIBs.

Furthermore, in 2014 the Basel Committee for banking supervision launched a review process of the calculation methods of banks' capital held for prudential purposes in respect of credit, market and operational risks.

In relation to the review of calculation methods of requirements for the "credit risk" category, the Basel committee launched a consultation, respectively in December 2015 and April 2016, on a second document concerning the review of the standardised approach for the calculation of RWAs and a document setting out a package of amendments to be applied to the structure of internal rating-based approaches, for the purpose of reducing the complexity of the legislative framework, increase the comparability of capital requirements in respect of credit risk and limit the excessive variability thereof. Furthermore, on 14 November 2016, the EBA launched a consultation on a document setting out guidelines for the estimate of PD and LGD, as well as for the treatment of defaulted exposures.

The review processes of the calculation models of requirements for the "market risk" and "operational risk" categories shall be added to the above. In January 2016, the "Fundamental Review of the Trading Book" (FRTB) has been finalised, i.e. the review of the standardised method and internal model for the calculation of minimum capital requirements in respect of market risk while in March 2016 the Basel committee launched a consultation providing for the review of the standard model and the repeal of internal models for the calculation of RWAs in respect of operational risks.

The replacement project of the transitional capital floor for risk weighted assets (RWA) established in function of the previously applied provisions pursuant to Basel I with a new floor, calculated in function of the RWAs determined on the basis of the standardised approach, as possibly amended as a result of the abovementioned review processes of the various risk categories, is also relevant.

For the sake of completeness, it has to be considered that the deadline for the finalisation of the reform package of the risk weighted assets prudential treatment, initially scheduled for the end of 2016, has been postponed to a to be defined date. In a communication on 3 January 2017, the "Group of Governors and Heads of Supervision" cancelled the meeting originally scheduled for 8 January during which the Basel committee should have approved the overall reforms package, and specified that a longer period of time is necessary to finalise the reform of Basel III, which will be then transposed in the EU legislation amending the CRD IV and the CRR.

On 23 November 2016, with the first legislative proposal of review of the CRR and the CRD IV, the EU regulatory process implementing in the European Union the Basel committee standards in the matter of market

risk ("Fundamental Review of the Trading Book"), leverage ratio, NSFR, TLAC, standardised approach to counterparty risk, started. In the context of such amendment proposals, the European Commission proposes the introduction of the NSFR, the calibration phase thereof is preparatory to the definition of parameter calculation rules and accordingly of minimum requirements to be complied with, and the introduction of a 3 per cent. leverage ratio. The entry into force of the majority of the proposed amendments will depend on the completion times of the legislative process at EU level.

A possible change to the calculation criteria of RWAs as a result of the abovementioned review processes may have an impact on the Group's capital adequacy. Furthermore, regardless of the consultations and review processes in progress, it cannot be excluded that regulatory authorities may, at any other time, review the internal calculation models of RWAs used by the Group and ask for the application of more stringent criteria, and this would cause potentially increased RWAs, with a negative impact on the business and the economic, capital and/or financial condition of the Bank and/or the Group.

Furthermore, on 20 March 2017 the ECB published the "*Guidance to banks on non-performing loans*", addressed to credit institutions, as defined pursuant to article 4, paragraph 1, of the CRR. The guidance is addressed, in general, to all significant institutions subject to direct supervision in the context of the SSM, including their international subsidiaries. The ECB banking supervision identified in the aforementioned guidance a set of practices it deems useful to indicate and which shall be meant as expectations of the ECB banking supervision. The document defines the measures, processes and best practices which should be integrated in the treatment of NPLs by banks, for which this issue should represent a priority. The ECB expects full adherence by banks to this guidance, in line with the gravity and extent of NPLs in the respective portfolios.

It should be finally noted that supervisory authorities have the power to bring administrative and judicial proceedings against the Group, which may translate, *inter alia*, in the suspension or revocation of authorisations, warning measures, fines, civil or criminal sanctions or other disciplinary measures, with possible negative effects on the business and the economic, capital and/or financial condition of the Bank and/or the Group.

Although the Issuer endeavours to comply with the complex set of rules and regulations, failed compliance therewith, or possible amendments to legislations and/or interpretation approaches and/or applications thereof by the competent supervisory authorities, may cause possible relevant negative effects on the operating results and the economic, capital and financial conditions of the Issuer.

Risks associated with competition in the banking and financial sector

The Bank and Group companies operate in the context of a competitive market and are accordingly exposed to risks deriving from the competitive pressure which may further increase in the following months due to the following factors: (i) the implementation of EU directives aimed at liberalising the EU banking sector; (ii) the deregulation of the banking sector everywhere in the European Union, and in particular in Italy, which incentivised competition in the traditional banking area with the effect of progressively reducing the margin between lending and deposit rates; (iii) the focus of the Italian banking sector on commission income, which leads to a higher competition in the asset management field and corporate banking and investment banking activities; (iv) changes in the tax and banking regimes; and (v) the evolution of services characterised by a strong technological innovation component, such as internet banking, phone banking and mobile banking.

Furthermore, such pressure may increase in light of regulatory actions, the behaviour of competitors, consumers' demand, technological changes, possible aggregation processes involving financial operators, the entry of new competitors, innovations introduced by fintech companies and the contribution of other factors not necessarily under the Group's control. In any case, the worsening of the macroeconomic scenario may give rise to further increased competitive pressure due to, without limitation, increased pressure on prices and lower business volumes.

Furthermore, the occurrence of changes in the competitive scenario of the Italian banking sector cannot be excluded, as a result of possible aggregations among banking institutions, people's (or former-people's) banks or among such banks and other credit institutions, with consequent strengthening of the competitive position of the institutions resulting from such aggregations. The occurrence of such circumstances would further increase the competitive pressure in the market, already highly competitive, in which the Group operates. Furthermore, it has to be considered that the not reduction of funding for the Group compared to competitors may affect negatively the quality of its lending.

Should the Group not be able to cope with the increasing competitive pressure through, *inter alia*, the offer of innovative and profitable products and services and to satisfy clients' needs, it could lose market shares in various business sectors.

Due to such competition, the Group may also not be able, in the absence of appropriate remedial actions, to re-launch profitability and, therefore, fail in achieving the strategic targets provided for under the Restructuring Plan, with possible negative effects on the business and the economic, capital and/or financial condition of the Bank and/or the Group.

Risks associated with the reduction of the system liquidity support

The financial markets' crisis entailed reduced liquidity available to operators, increased risk premium and, more recently, greater tensions linked to the sovereign debt of certain countries. Such factors, together with increased capital and liquidity requirements provided for by Basel III and the findings of the comprehensive assessment, gave rise to the need for complex initiatives in support of the credit system that directly involved both States (also through the direct intervention in some banks' capital) and central banks (initially mainly through refinancing transactions upon delivery of suitable collaterals and, at a later stage, also through repurchase interventions in the financial markets).

In this context, the authorities in charge intervened to guarantee adequate liquidity conditions to the banking system, such as to overcome the most acute phases of the crisis that affected the Euro Area, in particular starting from mid-2011, both through the granting of guarantees on medium-term debt securities issuances, and the broadening of the category of eligible securities to serve as collateral for the ECB funding.

On 6 September 2012, to contrast the increasing spread between State securities yields, the "ECB Steering Committee" announced an uncapped State securities purchase programme (the so called "Outright Monetary Transaction"). In the context of such programme, the ECB purchased securities with 1 to 3 year maturity in the secondary market without setting ex-ante limits, save for the compliance with certain conditions.

Furthermore, in its June 2014 meeting, the ECB launched a purchase plan of ABSs and covered bonds with the purpose of increasing its financial statement assets by Euro 1,000 billion by the end of 2016. The purchase plan, which provides for the joint intervention in the market of the ECB and national central banks, has subsequently been extended also to other assets, among which government securities, bond securities issued by local and regional governments, as communicated in the most recent ECB meeting of 2015, and also to Euro investment grade bonds issued by non-banking companies located in the Euro Area, as communicated in the meeting of 10 March 2016.

Finally, the ECB, besides proceeding with further cuts of reference rates, a few months prior to the maturity of the LTROs set up in 2011, launched a series of new long term financing transactions (4 years), called TLTRO, aimed at inducing banks to increase lending to real economy. Those auctions started between September and December 2014 and continued for two years, for amounts correlated with the loans granted by banks to the private sector. At the meeting of 10 March 2016, as additional intervention, the ECB launched four new long term financing transactions, called TLTRO II with 4 year maturity. Such auctions took place between June 2016 and March 2017 with quarterly frequency.

As at 30 September 2017, the Group refinancing with the ECB was constituted by: (i) the TLTRO four-year auctions with maturity on 26 September 2018; and (ii) the TLTRO II four-year auctions with maturity 24 on June 2020 and maturity 30 September 2020, for an overall exposure, net of accrued interests, equal to Euro 16,907 million.

On the basis of Law Decree 6 December 2011, no. 201, in the first months of 2012, the Issuer issued Euro 13 billion of Italian state guaranteed liabilities with three year maturity (for Euro 9 billion) and with five year maturity (for Euro 4 billion). Such liabilities have been fully redeemed.

In the first months of 2017, on the basis of Decree 237, the Issuer issued Euro 11 billion of Italian state guaranteed liabilities. Specifically, on 25 January 2017 two issuances of state guaranteed securities were launched for an overall amount of Euro 7 billion; this first issuance with maturity on 20 January 2018, coupon 0.5 per cent. and nominal amount Euro 3 billion, the second issuance with maturity on 25 January 2020, coupon 0.75 per cent. and nominal amount Euro 4 billion. Subsequently, on 15 March 2017, the Bank executed a second issuance of state guaranteed securities, with maturity 15 March 2020, coupon 0.75 per cent. and nominal amount of Euro 4 billion. All state guaranteed securities have been fully subscribed for by the Bank upon issuance and subsequently sold in part on the market and, used in part as collateral for financing transactions.

There is no certainty in relation to the duration and intensity with which liquidity support transactions may be re-proposed in the future, depending on the performance of the economic cycle and market conditions. Furthermore, the liquidity demand support currently offered by the ECB may in the future be limited or banned to the Bank by virtue of amendments to the rules governing the access thereto. The amount of liquidity supply provided by the ECB is linked to the value of collaterals offered to the Bank, which is represented for a significant portion by Italian government securities or Italian state guaranteed securities. Should the value of those assets be reduced, the liquidity supply available for the Bank would correspondingly be reduced.

Furthermore, starting from 1 March 2015, certain restrictions on the use of state guaranteed securities entered into force.

Notwithstanding those limitations have had no impact on the Bank's liquidity situation (having the Bank sold and/or financed such type of securities in the market), it cannot be excluded that in the future, should the ECB review the rules relating to the types of eligible guarantees or the rating requirements imposed thereon, other types of securities held by the Bank may no longer be admitted as collateral, with consequent increased cost of funding for BMPS and reduction of its possibility to find liquidity in the market. The inability to obtain liquidity in the market through the access to the Eurosystem or the significant reduced or ceased system liquidity support by governments and central authorities may cause greater difficulties in raising liquidity in the market and/or higher costs associated with the raising of such liquidity, with possible negative effects on the business and the economic, capital and/or financial condition of the Bank and/or the Group.

Equally, in relation to issuances of Italian state guaranteed liabilities pursuant to Decree 237, being extraordinary measures, there is no certainty that the Issuer may continue to benefit, in the future, from similar measures and, even if this were possible, it cannot be predicted with certainty to what extent. Should the impossibility to access such measures have an impact on the liquidity position of the Bank, it cannot be excluded that such circumstance may have negative effects on the business and the economic, capital and/or financial condition of the Bank and/or the Group.

Risks associated the sovereign quantitative easing launched by the ECB

For the purpose of contrasting the negative effects of a prolonged deflationary trend in the Euro Area, the ECB announced on 22 January 2015 a monetary expansion programme (so called sovereign quantitative easing) providing for an extended purchase plan of financial assets aiming at fulfilling the ECB mandate to safeguard price stability.

The new programme initially provided for, in addition to the pre-existing private sector asset purchase program, the possibility for the ECB to purchase, every month, Euro 60 billion of bond securities of European States, agencies and institutions up to a maximum value of Euro 1,140 billion to be spread over a period of 19 months starting from 9 March 2015.

On 3 December 2015, the ECB announced the inclusion in the purchase programme also of bond securities issued by local and regional governments, as well as the extension of the programme until March 2017, and in any case until the ECB "Steering Committee" ascertains a long-lasting adjustment of the inflation profile consistent with its goal to obtain inflation levels lower but close to 2 per cent. in the medium term. The purchase of securities in any case provides for a risk sharing criterion on the basis of which central banks of concerned countries will guarantee an 80 per cent. stake of the total, while 20 per cent. will be subject to risk shared among national banks and the ECB.

On 10 March 2016 the ECB announced, in the context of the asset purchase programme, to broaden monthly purchases to Euro 80 billion starting from April 2016 and to include, within the list of eligible assets for regular purchases, investment grade notes denominated in Euro issued by non-banking companies located in the Euro Area.

On 8 December 2016, the ECB announced the nine month extension, until the end of 2017, of the securities purchase programme, reducing however the monthly amount, starting from April 2017, from Euro 80 to 60 billion.

Notwithstanding the expected positive impacts of the sovereign quantitative easing on the European macroeconomic environment, it cannot be excluded that such monetary expansion policy may have an impact, keeping interest rates, currently already negative on short and medium maturities, on minimum levels on all main maturities, with consequent negative effects on the Bank profitability, as well as on the business and the economic, capital and/or financial condition of the Bank and/or the Group.

On 26 October 2017, the ECB announced the extension until September 2018 of the securities purchase

programme, reducing however the monthly amount, starting from January 2018, from Euro 60 to 30 billion.

Risks associated with the uncertainty of future outcomes of stress tests or asset quality review exercises

On 4 November 2014, the Single Supervisory Mechanism, including the ECB and the competent national authorities of the participating Member States, among which the Bank of Italy, started to operate. The SSM is in charge of the prudential supervisory of all credit entities of the participating Member States and assures that the EU policy in the matter of prudential supervision of credit institutions is implemented in a consistent and effective manner and credit institutions are subject to the highest quality supervision.

In the context of such supervisory mechanism, the ECB has been entrusted with specific prudential supervisory duties on credit institutions providing, *inter alia*, for the possibility of the latter to carry out, if the case is in coordination with the EBA, stress tests to ascertain whether the measures, strategies, processes and mechanisms put in place by credit institutions and own funds held thereby would allow for a sound management and coverage of risks when dealing with future but plausible negative events. Depending on the outcomes of such stress tests, the ECB is also entrusted with the power to impose on credit institutions specific obligations in the matter of additional own funds, specific disclosure and liquidity requirements, as well as other measures.

In this respect, by letter dated 27 June 2017, the ECB informed the Bank of the fact that in the course of the first semester 2018, the Bank will be subject to the SREP stress test, the findings of which will be factored in the overall assessment of the SREP 2018. The SREP stress test, although containing some simplifications compared to the stress test conducted in 2016 according with EBA's EU-wide modalities, replicates in substance its content and purpose. Accordingly, the outcomes of the SREP stress test 2018, similarly to the 2016 stress test , will be both factored in the preparation of the SREP Decision 2018.

In general, the outcomes of such stress tests are by their nature uncertain and only partially predictable by the financial institution involved since the evaluation methodologies used by the ECB aim at adopting an homogeneous risk evaluation within EU member states and, accordingly, may deviate – even to a significant extent – from the RWAs evaluation methods adopted by the single credit institutions involved.

In this respect, on 29 July 2016, the outcomes of the EBA's stress test have been disclosed, and showed for the Bank a very severe impact in the so called adverse scenario, which highlights a CET1 in 2018 equal to -2.2 per cent., while in the so called baseline scenario CET1 is confirmed at 12 per cent.. Specifically, such outcomes are strongly impacted by the high NPL ratio of the Issuer.

Furthermore, the EBA, in cooperation with the competent supervisory authorities, may in the future decide to recommend a new asset quality review on the most important European banks and, among those, also the Issuer, with the purpose of verifying the classifications and evaluations operated by them on their loans for the purpose of dealing with the worries linked to the deterioration of asset quality. Such asset quality review exercise may, furthermore, possibly also be combined with an additional stress test conducted by the ECB in the context of a new comprehensive assessment exercise, similar to the one closed in October 2014.

Should the ECB, in cooperation with the EBA and the other competent supervisory authorities, carry out new comprehensive assessment exercises (or stress test or asset quality review exercises), it cannot be assured that the Issuer will meet the minimum parameters set in the context of such exercises and that, accordingly, in case of failure, it will not be the addressee of ECB measures that, *inter alia*, may impose the implementation of new capitalisation actions or other measures suitable to replenish the capital insufficiencies found in the Bank's own funds, with possible negative effects on the business and the economic, capital and/or financial conditions of the same and/or the Group.

Risks associated with the entry into force of the new accounting principles and the amendment of applicable accounting principles

The Group is exposed, similarly to the other entities operating in the banking sector, to the effects of the entry into force and subsequent application of new accounting principles or rules and regulations and/or to the amendment thereof (including those deriving from International Accounting Standards as homologated and adopted in the EU jurisdiction). Specifically, in the future the Group may have to review the accounting and regulatory treatment of certain outstanding assets and liabilities and transactions (and related profits and charges), with possible negative effects, even significant, on the estimates contained in the financial plans for future years and may have to restate previously published financial data.

a) The new International Accounting Standard IFRS 9 "Financial Instruments"

The International Accounting Standard Board ("**IASB**") issued, on 24 July 2014, the final version of IFRS 9 ("**IFRS 9**") which replaces the prior standard versions published in 2009 and 2010 for the "classification and measurement" phase, and in 2013 for the "hedge accounting" phase and completes the IASB project of replacement of IAS 39 "Financial Instruments: Recognition and Measurement".

IFRS 9:

- introduces significant amendments to the classification and measurement rules of financial assets which will be based on the business model and cash flows characteristics of the financial instrument (SPPI criterion – Solely Payments of Principal and Interests), which may entail various classification and measurement methods of financial instruments compared to IAS 39;
- provides for a new impairment accounting model based on an "expected losses" approach instead of "incurred losses" as per current IAS 39, also characterised by the introduction of the "lifetime" expected loss notion which may lead to an anticipation and a structural increase of value adjustments, specifically those pertaining to loans; and
- intervenes on "hedge accounting" rewriting the rules for the designation of a hedging relation and for the verification of its effectiveness with the purpose of guaranteeing a better alignment between hedging accounting recognition and underlying management logics.

The standard provides for the possibility for the institution to avail itself of the option to continue to apply the prior versions of International Accounting Standard IAS 39 in the matter of "hedge accounting" until completion by the IASB of the definition project of the rules relating to "macro-hedging".

Furthermore, IFRS 9 also changes the recognition of the so called "own credit", i.e. of fair value variations of liabilities designated in fair value option ascribable to movements in its own creditworthiness. The new standard provides for such variations to be recognised in an equity reserve, instead of through profit or loss as was instead provided for by IAS 39, thereby removing a volatility source of economic results.

IFRS 9, homologated by the European Commission on 22 September 2016 with Regulation no. 2016/2067, will mandatorily apply to the financial statements referred to financial years commencing on 1 January 2018, but with the possibility for early application of the entire standard or just its amendments related to the accounting treatment of own credit for financial liabilities designated at fair value. In respect of the latter aspect the Group decided to avail itself of this option starting from 1 January 2017.

Furthermore, as a consequence of the entry into force of IFRS 9, a review of prudential rules for the calculation of the capital absorption on credit value adjustments is also expected. The terms of such review are not yet known as at the date of the Base Prospectus.

The main quantitative impacts expected as at the date of first application of the standard are essentially referred to below:

i) the application of the new impairment model, which will entail increased provisions, specifically those relating to non-impaired assets classified under stage 2, as a consequence of the application of the lifetime expected losses approach and those relating to impaired assets classified under stage 3 for the application of the forward-looking and multi-scenario approach which will allow for a timely recognition of expected credit losses (among which also the effects ascribable to the assignments of Doubtful Loans and Unlikely to Pay provided for by the Restructuring Plan); and

ii) the application of the new rules for the transfer of positions among the various classification stages provided for by the new standard. Specifically, it is expected that a greater volatility could be generated in economic and capital results among the various reporting periods, ascribable to the dynamic movements among the various stages of pertinence of financial assets recorded in the financial statement (specifically between "stage 1" which will mainly include new positions disbursed and all fully performing positions and "stage 2" which will include positions in financial instruments which underwent a credit deterioration compared to the time of initial recognition).

Changes in the accounting value of financial instruments due to the transition to IFRS 9 will be recognised in balancing entries in net equity as at 1 January 2018.

In this respect, the Group took part from the very beginning in the planning activities of the Associazione Bancaria Italiana ("**ABI**") and commenced, in the course of the second semester of 2015, its own transition plan, the architecture of which is structured in the following three activity strands: (i) preliminary assessment, (ii) design and (iii) implementation. In the course of 2015 the assessment phase started, and it closed in the

course of the first quarter of 2016, aimed at assessing the potential impacts of the new standard on regulatory aspects, risk models, administration, organisation, IT applications and business.

In the first quarter of 2016 a detailed analysis has been conducted with reference to the abovementioned preliminary evidences which confirmed the materiality of the changes introduced by the new standard, specifically in respect of the impairment model applicable to all financial assets (with exclusion of the "Fair Value Through Profit or Loss" – "**FVTPL**"), supporting the expectation of an increased number of write-downs compared to those estimated with the model in use as at the date of the Base Prospectus. On the contrary no significant capital reclassifications are expected in the application of the new provisions in the matter of classifications of financial assets provided for by IFRS 9. The design activity, which commenced in the course of the first quarter of 2016, further developed in the course of the second quarter of 2016 and was substantially closed on 31 December 2016. The architecture of the project provides for the implementation activity aimed at planning and executing the interventions identified and defined in the prior planning stages. On 9 July 2016, the Bank of Italy sent banks a "Self-assessment questionnaire on the adoption of the new accounting standard" in order to make available to intermediaries a homogeneous instrument for a self-assessment on the adoption process of IFRS 9.

On 10 November 2016, the EBA published a report summarising the main findings of the impact analysis conducted on a sample of 50 EU banks. In relation to the qualitative component of the questionnaire, the authority highlighted as the sample of concerned banks has indicated an operating complexity, specifically in relation to the aspects linked to the data and technological quality in the introduction of the standard. Furthermore the report highlighted how the change of impairment model would entail for the sample of examined banks an average growth of IAS 39 provisions equal to around 18 per cent..

In relation to the Restructuring Plan, it is worth to note that it includes the impacts deriving from the entry into force of IFRS 9, although the conversion project put in place by the Group is still in progress. As at the date of the first application (1 January 2018), the preliminary estimate determined a negative impact on the Group's book net equity equal to around Euro 1.2 billion, gross of tax effect.

The economic forecasts used to determine the aforementioned estimate can mainly be summarised in four macro indicators: "GDP", "Unemployment rate", "Inflation" and "Performance of the real estate market". Specifically, in the four year period 2018 to 2021 it is expected:

- for the Italian GDP a growth respectively of +1 per cent. for 2018, +0,9 per cent. for 2019, +0,8 per cent. for 2020 and +0,9 per cent. for 2021;
- for the unemployment rate a gradual decrease from 10,9 per cent. in 2018 to 10,3 per cent. in 2019, to 9,8 per cent. in 2020 to 9,3 per cent. in 2021;
- for inflation a gradual increase, from 1,3 per cent. in 2018 to 1,7 per cent. in 2019 to 1,8 per cent. in 2020 to 1,9 per cent. in 2021;
- for the real estate market a progressive price growth of 1,8 per cent. in 2018, 2,3 per cent. in 2019, 2,5 per cent. in 2020 and 2,4 per cent. in 2021.

The models used for the new accounting standard will be subject to internal validation in the fourth quarter of 2017.

b) The new International Accounting Standards IFRS 15 "Revenues from contracts with customers" and IFRS 16 "Leases"

For the sake of completeness, it has to be considered that the IASB issued, respectively on 28 May 2014 and 13 January 2016, the final versions of the International Accounting Standards IFRS 15 "*Revenues from contracts with customers*" ("**IFRS 15**") and IFRS 16 "*Leases*" ("**IFRS 16**").

The new International Accounting Standard IFRS 15, homologated by the European Commission on 22 September 2016 with Regulation no. 2016/1905, will be applicable as of 1 January 2018 with the possibility to opt for its early application. Such standard amends the current set of International Accounting Standards replacing the standards and interpretations on "revenue recognition" in force as at the date of the Base Prospectus and, specifically, IAS 18.

IFRS 15 provides for:

- two approaches for revenues recognition (“at point in time” or “over time”);
- a new transaction analysis model (“Five steps model”) focused on the transfer of control; and
- a greater disclosure required to be included in the notes to the Financial Statement.

IFRS 16 will, instead, be applicable from 1 January 2019, after the same has been homologated by the European Union. IFRS 16 amends the current set of International Accounting Standards and interpretations on leasing in force, and specifically IAS 17. IFRS 16 introduces a new leasing definition and confirms the current distinction between the two types of leasing (operating and financial) in relation to the accounting model to be applied by the lessor.

In relation to the accounting model to be applied by the lessee, the new standard provides that, for all types of leasing, an asset shall be recognised representing right of use of the goods the subject matter of the leasing and, at the same time, the debt relating to the fees provided for by the leasing contract.

At the time of the initial recognition, such asset is assessed on the basis of the financial flows associated with the leasing contract, inclusive of, besides the current value of leasing fees, initial direct costs associated with the leasing and the possible costs necessary to restoration of the asset upon expiry of the contract. After the initial recognition, such asset will be assessed based on the provisions governing tangible assets and, accordingly, at cost net of amortisations and possible value reductions, at “re-determined value” or at fair value according to the provisions of IAS 16 or IAS 40.

Since the date of entry into force of the aforementioned standard is expected for 1 January 2019, the quantitative effects deriving from its adoption, currently not available, will be subject to future estimate by the Group. The application of IFRS 16 may determine, for the Issuer and/or the other Group companies, a review of the accounting modalities of revenues and costs relating to outstanding transactions as well as the recognition of new assets and liabilities associated with the signed operating leasing contracts.

Such effects will give rise to the consequent need to consistently and retrospectively review the prior periods and then amend, even significantly, the opening asset balances as at the respective dates. On the basis of legislative and/or technological and/or business context evolutions it is also possible that the Group may have to further review in the future the operating methodologies for the application of International Accounting Standards, with possible negative impacts, even significant, on the economic, financial and/or capital position of the Issuer and/or the Group.

Risks associated with ordinary and extraordinary contribution obligations to the Single Resolution Fund and the Interbank Deposit Guarantee Fund (Fondo Interbancario di Tutela dei Depositi)

Subsequent to the crisis which affected various financial institutions starting from 2008, various systems aimed at containing the risk of banking crises have been introduced, both at EU level and at level of single Member States, the implementation of which entails disbursements, even significant, by credit institutions in favour of the banking system in its entirety.

Deposit Guarantee Scheme and Single Resolution Fund

In application of: (i) Directive 2014/49/EU (*Deposit Guarantee Schemes Directive* – DGSD) of 16 April 2014; (ii) Directive 2014/59/EU (*Bank Recovery and Resolution Directive* – BRRD) of 15 May 2014; and (iii) Regulation (EU) no. 806/2014 of the European Parliament and the Council (the “**SRM Regulation**”) establishing, *inter alia*, the Single Resolution Fund (“**SRF**”), which as of 1 January 2016 includes sub-funds at national level to which contributions collected at national level by Member States through their National Resolution Fund (“**NRF**”) are allocated, the Issuer is bound to provide the financial resources necessary to finance the Deposit Guarantee Scheme (“**DGS**”) and the Single Resolution Fund. Such contribution obligations may have a significant impact on the financial and capital position of the Issuer. The multi-annual costs of the components of the extraordinary contribution which may be necessary for the management of any future banking crisis cannot currently be predicted.

Specifically, in respect of the DGS, the Issuer is bound by the following ordinary and extraordinary contribution obligations:

- ordinary advanced annual contribution to the DGS, from 2015 to 2024, aimed at the constitution of funds equal to 0.8 per cent. of guaranteed deposits as at the target date. Should, after the accruing period, the available financial resources drop below the target level, the collection of contributions is resumed at least until such level is restored. Furthermore, after the first achievement of the target level

and, should the financial resources drop below two thirds of the target level, such contributions are set at a level allowing to achieve the target level within a six year period;

- the payment commitment (ex post), in respect of any extraordinary contribution required in case available financial resources are insufficient to repay depositors: such extraordinary contributions may never exceed 0.5 per cent. of guaranteed deposits for each solar year, except for exceptional cases and subject to the prior consent of the competent Authority, where the DGS may also ask for higher contributions.

As a consequence of such introduction, the "Interbank Deposit Guarantee Fund" ("**FITD**"), updated its By-Laws through shareholders resolution of 26 November 2015 anticipating the introduction of the prepayment mechanism (aimed at reaching the aforementioned multi-annual target with target at 2024). As at 31 December 2016 the Group has contributed with Euro 30 million to the DGS' national schemes. As at 30 September 2017, the Issuer recorded the estimated contribution for the year 2017 at Euro 31 million; as at the date of the Base Prospectus the exact amount and its settlement methods are still unknown.

Contribution commitments to the SRF are as follows:

- annual ordinary pre-payment until 2023, aimed at constituting funds equal to 1 per cent. of guaranteed deposits by the end of 2023. The accrual period may be extended by further four years in case the funding mechanism has executed disbursements for more than 0.5 per cent. of guaranteed deposits. Should, after the accruing period, available financial resources drop below the target level, the collection of contributions is resumed until such level is restored. Furthermore, after the first achievement of the target level and, should financial resources drop below two thirds of the target level, such contributions are set at a level allowing to achieve the target level within a six year period. The contribution mechanism entails ordinary annual contributions aimed at allocating costs for contributing banks in a uniform manner over a period of time. A transitional contribution phase to the SRF's national sub-funds as well as their gradual mutualisation is provided for. As at 31 December 2016 the ordinary contribution of the Group has been equal to Euro 71 million. As at 30 September 2017, the Group's contribution has been equal to Euro 63 million. The annual value of the contribution is subject to review on the basis of the execution of risk parameters and guaranteed deposit volumes; and

- payment commitments (ex post), in respect of any additional extraordinary contribution required, equal to a maximum of three times the scheduled annual contributions, in case the available financial resources are insufficient to cover for losses and costs relating to the SRF interventions.

The Bank of Italy, in its capacity as National Resolution Authority, set up the National Resolution Fund (*Fondo Nazionale di Risoluzione*, the "**National Resolution Fund**" or "**FNR**" hereinafter), which collects from banks with registered office in Italy ordinary and extraordinary contributions, in accordance with the provisions of art. 82 and 83 of Decree 180 (as defined below). At the end of 2015, the National Resolution Fund called for ordinary and extraordinary contributions; the latter to an extent of three times the annual amount of ordinary contributions, to fund the resolution measures of the crises of Banca delle Marche, Banca Popolare dell'Etruria e del Lazio, Cassa di Risparmio della Provincia di Chieti and Cassa di Risparmio di Ferrara. The amount of ordinary and extraordinary contribution requested to the Group as at 31 December 2015 is equal to, respectively, Euro 60 million and Euro 179 million. In the context of the resolution interventions of the aforementioned banks, four bridge banks (good banks) with the purpose of maintaining continuity of the essential functions previously carried out by the banks in resolution and an intermediary (Credit Management REV) in charge of ascertaining the Doubtful Loans acquired thereby have been set up. The liquidity necessary for the Fund to carry out the aforementioned interventions has been advanced by a pool of banks, of which the Group was not a party, through a bridge loan at market rates and with maximum 18 month maturity, subsequently partially redeemed through the amounts coming from the aforementioned ordinary and extraordinary contributions.

As a consequence of the failed disposal of assets provided for by the resolution plan and taking into account that financial resources proved insufficient to support over time the resolution interventions carried out, at the end of December 2016, the National Resolution Fund recalled additional contributions, equal to two annuities, for an overall amount for the Group equal to Euro 140 million. This was due to Law Decree 183/2015 (so called "Banks Aid Decree" converted by Law 208/2015), which provides that, in case the fund's available financial resources are not sufficient to support over time the resolution interventions carried out, only for the year 2016, contributions may be increased by two times the annual amount of contributions determined in

accordance with article 70 of Regulation (EU) no. 806/2014 and the implementing regulation (EU) no. 2015/81.

On the basis of the above, as at 30 September 2017, the overall amount of contributions paid by the Issuer to the Single Resolution Fund and the National Resolution Fund was equal to Euro 63 million (Euro 211 million as at 31 December 2016 and Euro 239 million as at 31 December 2015).

The SRF and the NRF may in the future require additional contributions for an amount that cannot be currently determined, with potentially significant negative effects on the business of the Issuer, transaction results and financial conditions.

Voluntary scheme

For the purpose of overcoming the negative position taken by the European Commission in respect of the use of mandatory contributions to support interventions in favour of banks in crisis, at the end of 2015, in the context of the Interbank Deposit Guarantee Fund, a voluntary scheme was established as an additional tool not subject to the restrictions of the EU regime and of the European Commission. After the remodulation of the intervention in Tercas, the replenishment of the voluntary scheme resources was provided for a maximum amount of Euro 700 million to be used in support interventions in favour of small banks in difficulty and subject to extraordinary administration procedure, in case of concrete recovery perspectives and for the purpose of avoiding higher burdens for the banking system consequent to liquidation or resolution interventions.

Such resources are not immediately paid by adhering banks, which simply undertake to disburse them upon request on occasion of specific interventions, up to the maximum amount set. The Group adhered to the voluntary scheme and accordingly recorded in the first semester of 2016 a commitment for its pertaining share of the resolved Euro 700 million, equal to Euro 48 million.

Out of this amount, the management board of FITD at the meeting of 15 June 2016 resolved to participate in the recapitalisation transaction of Cassa di Risparmio di Cesena. The ECB, with measure of 15 September 2016, authorised the assumption of the equity interest by the voluntary scheme and on 20 September 2016, all adhering banks paid their pro-quota portion of the overall recalled amount equal to Euro 281 million, of which Euro 280 million for the Capital Increase and Euro 1 million for expenses associated with the intervention and the functioning of the voluntary scheme.

For the purposes of raising the necessary funds to finally solve the crisis of Caricesena, Carismi and Carim and facilitating the assignment of the three banks to Cariparma, which submitted a conditional purchase offer, the voluntary scheme meeting held on 7 September 2107 resolved a capital increase by 95 million (from Euro 700 to Euro 795 million). As a consequence of such increase, the overall commitments of the Group to the Scheme, including quotas already recalled, have been estimated at Euro 55 million.

Furthermore, on 29 September 2017, an agreement was entered into between Cariparma, Fondo Interbancario di Tutela dei Depositi-voluntary scheme, Caricesena, Carismi and Carim setting out the following, in addition to requiring the necessary authorisations from the competent domestic and EU supervisory authorities:

- derecognition of a portfolio of impaired loans (Doubtful Loans and Unlikely to Pay) of the three banks for an overall gross amount of Euro 3,026 million; such derecognition shall occur through a securitisation and an intervention by the voluntary scheme to subscribe the junior notes and a quota of the mezzanine notes;

- increase in the capital of Carismi and Carim by the FITD voluntary scheme, in addition to a capital contribution for Caricesena, aimed at achieving an adequate level of capitalisation for an overall amount of Euro 470 million approximately;

- compliance with some capital requirements (i.e. average CET 1 ratio of at least 10.7 per cent.) and credit rating requirements (i.e. gross NPE ratio equal to 9 per cent. approximately).

Following the board's resolution, the scheme has been asked to proceed with the first part of the planned measure and has consequently recalled an amount of Euro 55 million, of which Euro 3.6 million regarding the BMPS Group.

As at 30 September 2017, the Group posted adjustments for an overall amount of Euro 51 million proceeding with the full depreciation of the share held in the Voluntary Scheme, in addition to the partial depreciation of irrevocable commitments given by the Group toward the same, following the assessments carried out in view of the transaction Caricesena/Carim/Carismi. As a consequence of the agreement entered into on 29

September 2017 the Group has estimated additional costs for over Euro 40 million, which will be accounted for in the second six-month period of 2017.

The contribution paid by banks adhering to the voluntary scheme represents an asset, recorded in the balance sheet of the participating banks. The recognition of the asset is also supported by the explicit provision contained in FITD's By-Laws relating to the voluntary scheme which provides for any realisations deriving from the purchase of equity interests to be reassigned to the banks participating in the same scheme.

The abovementioned ordinary contribution obligations contribute to reducing profitability and negatively impact on the Bank's capital resource level. It cannot be excluded that the level of ordinary contributions asked of the Issuer is destined to grow in the future in respect of the evolution of the relative amount of protected deposits and/or of the Group banks' relative risk compared to all banks bound to pay the same contributions. Furthermore, it cannot be excluded that, even in the future, as a consequence of non-governable and non-foreseeable events, the Interbank Fund, the Single Resolution Fund and/or the National Resolution Fund may find themselves in the situation of having to ask for new and additional extraordinary contributions. This would entail the need to recognise further extraordinary charges with impacts, even significant, on the Group's asset situation and economic results.

Risks associated with the general economic/financial crisis and the debt crisis of the Euro Area

The results of the Issuer and the companies belonging to the Group are significantly affected by general economic conditions and financial markets dynamics and, in particular, by the performance of the economy in Italy (determined, *inter alia*, by factors such as the soundness perceived by investors, expected growth perspectives of the economy and credit reliability) as the country in which the Bank operates on an almost exclusive basis and to which the Group has a relevant credit exposure.

As a result of the crisis that has affected them since August 2007, global economies and financial markets found themselves operating in challenging and unstable conditions such as to require the intervention of governments, central banks and supernatural bodies in support of financial institutions, among which the injection of liquidity in the systems and the direct intervention in the recapitalisation of a number of such entities. This scenario has, in fact, negatively affected financial markets worldwide.

Such negative context, in addition to having contributed to accelerating the deterioration of the public finance conditions of EU countries, prejudiced in particular the banking systems more exposed to sovereign debts (so called sovereign debt crisis) causing a progressive worsening of the crisis which continued, both at Italian and EU level, for the entire 2012 with consequent increased credit risk of sovereign States and financial institutions. Despite ECB interventions, the worries of a possible default of a number of countries of the Euro Area spread among investors and economic operators, with a consequent general decrease in lending operations, a higher market volatility and strong criticalities, at international level, in the raising of liquidity. In this context, the hypothesis of a dissolution of the European Monetary Union or the exit of single countries has several times been threatened.

The worries of a stagnation phase of the European economy, in a context of high volatility, increased to such an extent that, at the beginning of 2015, the ECB announced the launch of the "Public Sector Purchase Programme" (PSPP) within the Quantitative Easing (QE).

The programme has been subsequently strengthened, with the ECB extending its duration until December 2017 its expiry, introduced long term refinancing transactions (TLTRO), further reduced the deposit rate (to -0.4 per cent.), and broadened the scope of application not only to securities issued by regions and local authorities but also to corporate securities (investment grade). Thanks in part to these measures and to a relatively satisfactory global growth, the Euro Area's economy closed in 2016 with a 1.7 per cent. growth and recorded a 2 per cent. growth rate in the first half of 2017. The lower contribution of net exports, as a result of the slowdown in the growth of foreign trade and of the difficulties found by some emerging countries, has been set off by a solid dynamic of internal demand.

With specific reference to Italy, the economic performance of the country has been significantly impacted by the international crisis and has been characterised by the stagnation of the national economy, several downgrading actions of the Italian rating and an increased spread between BTP and Bund.

In the progressive stabilisation scenario in effect since mid-2013, Italy has benefitted, late compared to the other economies of the Euro Area, from the improved EU economic cycle. The return to a marginally positive growth in GDP in 2014 (0.2 per cent.) and the moderate growth recorded in 2015 (0.7 per cent.) and 2016 (1.0 per cent.) leave the Italian economy at an activity level significantly below than pre-crisis levels.

In the course of 2017 in Italy, as well as in the other EU countries, companies' confidence indicators collected by ISTAT[4] highlighted an improved scenario which led to a GDP's contingent growth of 0.4 per cent. in the first two quarters of the year, as reported by ISTAT[5]. The growth compared to the first half of 2016 (1.4 per cent.) is the highest of the last six years and increases the likelihood that the state estimate of a 1.1 per cent. growth in 2017 will be exceeded.

Possibilities of a significant acceleration of growth in Italy continue to depend, besides the uncertain evolution of the international scenario, in the first place with uncertainty about the impact of the exit process of Great Britain from the EU, upon domestic weakness factors, such as an internal demand which, although showing signs of relative liveliness, remains fragile, a labour market improving in the last years but still showing (geographic and demographic) areas of extreme weakness, a situation of public accounts which, notwithstanding the flexibility areas negotiated with EU authorities, strongly limits the use of tax leverage.

Mainly thanks to the measures adopted by the ECB and the progressive improvement of unbalances, public finance and balance of payments, the BTP-Bund spread was progressively reduced, until dropping below 100 basis points in the course of the first quarter of 2015. From those levels, the spread returned to be above 200 basis points towards mid-April 2017 and was at around 170 basis points in the final part of August.

The above illustrated scenarios determined, also for the Group, a slowdown of ordinary business, a substantially increased cost of funding, decreased asset values due to decreased bond prices, a deteriorated credit portfolio with increased Impaired Loans and insolvency situations and further costs deriving from write-downs and depreciations of assets, with a consequent decreased ability to generate profits. Notwithstanding tensions having recently lessened, a consistent volatility still remains in the markets and the Italian political condition remains characterised by instability phenomena. Should the contingent situation further deteriorate and should the Italian economy, in particular, stagnate, this may determine losses, even relevant, further slowing down ordinary business and make the raising of liquidity necessary to carry on the business more difficult and expensive, with possible negative effects on the business and the economic, capital and/or financial condition of the Bank and/or the Group.

Risks connected with the political and economic decisions of EU and Eurozone countries and the United Kingdom leaving the European Union ("Brexit")

On 23 June 2016, the United Kingdom voted, in a referendum, to leave the European Union ("Brexit"). On 29 March 2017, the British Prime Minister gave formal notice to the European Council under Article 50 of the Treaty on European Union of the intention to withdraw from the European Union, thus triggering the two-year period for withdrawal.
The process of negotiation will determine the future terms of the UK's relationship with the EU. Depending on the terms of the Brexit negotiations, the UK could also lose access to the single EU market and to the global trade agreements negotiated by the EU on behalf of its members. Given the unprecedented nature of a departure from the EU, the timing, terms and process for the United Kingdom's exit, are unknown and cannot be predicted.

Regardless of the time scale and the term of the United Kingdom's exit from the European Union, the result of the referendum in June 2016 created significant uncertainties with regard to the political and economic outlook of the United Kingdom and the European Union.

The exit of the United Kingdom from the European Union; the possible exit of Scotland, Wales or Northern Ireland from the United Kingdom; the possibility that other European Union countries could hold similar referendums to the one held in the United Kingdom and/or call into question their membership of the European Union; and the possibility that one or more countries that adopted the Euro as their national currency might decide, in the long term, to adopt an alternative currency or prolonged periods of uncertainty connected to these eventualities could have significant negative impacts on international markets. These could include further falls in equity markets, a further fall in the value of the pound and, more in general, increase financial markets volatility, with possible negative consequences on the asset prices, operating results and capital and/or financial position of the relevant Issuer and/or the Guarantor, as the case may be, and/or the Group.

[4] ISTAT. Fiducia dei Consumatori e delle Imprese – August 2017, 28 August 2017.
[5] ISTAT. Conti Economici Trimestrali – II quarter 2017, 1 September 2017.

In addition to the above and in consideration of the fact that at the date of this Base Prospectus there is no legal procedure or practice aimed at facilitating the exit of a Member State from the Euro, the consequences of these decisions are exacerbated by the uncertainty regarding the methods through which a Member State could manage its current assets and liabilities denominated in Euros and the exchange rate between the newly adopted currency and the Euro. A collapse of the Eurozone could be accompanied by the deterioration of the economic and financial situation of the European Union and could have a significant negative effect on the entire financial sector, creating new difficulties in the granting of sovereign loans and loans to businesses and involving considerable changes to financial activities both at market and retail level. This situation could therefore have a significant negative impact on the operating results and capital and financial position of the relevant Issuer and/or the Guarantor, as the case may be, and/or the Group.

Basel III and CRDIV

In the wake of the global financial crisis that began in 2008, the BCBS approved, in the fourth quarter of 2010, revised global regulatory standards ("**Basel III**") on bank capital adequacy and liquidity, which impose requirements for, *inter alia*, higher and better-quality capital, better risk coverage, measures to promote the build-up of capital that can be drawn down in periods of stress and the introduction of a leverage ratio as a backstop to the risk-based requirement as well as two global liquidity standards. The Basel III framework adopts a gradual approach, with the requirements to be implemented over time, with full implementation by 2019.

In January 2013 the BCBS revised its original proposal in respect of the liquidity requirements in light of concerns raised by the banking industry, providing for a gradual phasing-in of the Liquidity Coverage Ratio with a full implementation in 2019 as well as expanding the definition of high quality liquid assets to include lower quality corporate securities, equities and residential mortgage backed securities. Regarding the other liquidity requirement, the net stable funding ratio, the BCBS published the final rules in October 2014 which will take effect from 1 January 2018.

The Basel III framework has been implemented in the EU through new banking requirements: Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms (the "**CRD IV**") and Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms (the "**CRR**" and together with the CRD IV, the "**CRD IV Package**"). Full implementation began on 1 January 2014, with particular elements being phased in over a period of time (the requirements will be largely fully effective by 2019 and some minor transitional provisions provide for phase-in until 2024) but it is possible that in practice implementation under national laws may be delayed. Additionally, it is possible that EU Member States could introduce certain provisions at an earlier date than that set out in the CRD IV Package.

National options and discretions under the CRD IV Package that were so far exercised by national competent authorities will be exercised by the SSM (as defined below) in a largely harmonised manner throughout the Banking Union. In this respect, on 14 March 2016, the ECB adopted Regulation (EU) No. 2016/445 on the exercise of options and discretions. Depending on the manner in which these options/discretions were so far exercised by the national competent authorities and on the manner in which the SSM will exercise them in the future, additional/lower capital requirements may result.

In Italy, the Government approved a Legislative Decree on 12 May 2015 ("**Decree 72/2015**") implementing the CRD IV. Decree 72/2015 entered into force on 27 June 2015. The new regulation impacts, *inter alia*, on:

- proposed acquirers of holdings in credit institutions, requirements for shareholders and members of the management body (Articles 23 and 91 of the CRD IV);
- competent authorities' powers to intervene in cases of crisis management (Articles 64, 65, 102 and 104 of the CRD IV);
- reporting of potential or actual breaches of national provisions (so called whistleblowing, Article 71 of the CRD IV); and
- administrative penalties and measures (Article 65 of the CRD IV).

The Bank of Italy published new supervisory regulations on banks in December 2013 (Circular No. 285) which came into force on 1 January 2014, implementing the CRD IV Package, and setting out additional local prudential rules. According to Article 92 of the CRR, institutions shall at all times satisfy the following own funds requirements: (i) a CET1 Capital ratio of 4.5 per cent..; (ii) a Tier 1 Capital ratio of 6 per cent..; and (iii)

a Total Capital ratio of 8 per cent. These minimum ratios are complemented by the following capital buffers to be met with CET1 Capital, reported below as applicable with reference to 30 September 2017:

- *Capital conservation buffer*: The Capital conservation buffer has applied to the Issuer since 1 January 2014 pursuant to Article 129 of the CRD IV and Part I, Title II, Chapter I, Section II of Circular No. 285. According to the 18th update[6] to Circular No. 285 published on 4 October 2016, new transitional rules provide for a capital conservation buffer set for 2017 at 1.25 per cent. of RWAs, increasing to 1.875 per cent. of RWAs in 2018 and 2.5 per cent. of RWAs from 2019;
- *Counter-cyclical capital buffer*: The countercyclical capital buffer applies starting from 1 January 2016. Pursuant to Article 160 of the CRD IV and the transitional regime granted by Bank of Italy for 2017, institutions' specific countercyclical capital buffer shall consist of Common Equity Tier 1 capital capped to 1.25 per cent. of the total of the risk-weighted exposure amounts of the institution. As of 30 September 2017 the specific countercyclical rate of the BMPS Group amounted to 0.002 per cent..
- *Capital buffers for G-SIIs*: It represents an additional loss absorbency buffer (ranging from 1.0 per cent. to 3.5 per cent. in terms of required level of additional common equity loss absorbency as a percentage of risk-weighted assets), determined according to specific indicators (e.g. size, interconnectedness, complexity). It is subject to phase-in starting from 1 January 2016 (Article 131 of the CRD IV and Part I, Title II, Chapter I, Section IV of Circular No. 285) becoming fully effective on 1 January 2019. Based on the most recently updated list of G-SIIs published by the FSB in November 2016 (to be updated annually), the Group is not a G-SIB and does not need to comply with a G-SII capital buffer requirement; and
- *Capital buffers for O-SIIs*: up to 2.0 per cent. as set by the relevant competent authority and must be reviewed at least annually from 1 January 2016, to compensate for the higher risk that such banks represent to the domestic financial system (Article 131 of the CRD IV and Part I, Title II, Chapter I, Section IV of Circular No. 285). The O-SII buffer is equal to 0 per cent. for the Group for 2017; identified by the Bank of Italy as an O-SII authorised to operate in Italy, the Group has to maintain a capital buffer of 0.25 per cent. of its total risk exposure, to be achieved according to the following transitional period: 0.06 per cent for 2018, 0.13 per cent. for 2019, 0.19 per cent. for 2020 and 0.25 per cent. from 2021.

For further details on capital requirements and buffers – also in relation to TSCR and OCR – please see "*Risks associated with the investigations of supervisory authorities*", "*Risks associated with capital adequacy*"and "*Risks associated with the evolution of the banking and financial sector regulation and of the additional provisions the Group is subject to*" above.

In addition to the above listed capital buffers, under Article 133 of the CRD IV each Member State may introduce a Systemic Risk Buffer of Common Equity Tier 1 capital for the financial sector or one or more subsets of that sector in order to prevent and mitigate long term non-cyclical systemic or macroprudential risks not otherwise covered by the CRD IV Package, in the sense of a risk of disruption in the financial system with the potential of having serious negative consequences on the financial system and the real economy in a specific Member State. Currently, no provision is included on the systemic risk buffer under Article 133 of the CRD IV as the Italian level‑1 rules for the CRD IV implementation on this point have not yet been enacted.

Failure to comply with such combined buffer requirements triggers restrictions on distributions and the need for the bank to adopt a capital conservation plan on necessary remedial actions (Articles 140 and 141 of the CRD IV).

Following the SREP Decision, it is required that the Bank complies, starting from 1 January 2018, at consolidated level, with a CET1 ratio on a transitional basis equal to 9.44 per cent. and a total capital ratio, again on a transitional basis, equal to 12.94 per cent.. For more information on the capital adequacy requirements which shall be complied with by the Bank, reference is made to "*Risks associated with capital adequacy*".

[3]On 6 October 2016, the Bank of Italy published the 18th update of Circular No. 285 that modifies the capital conservation buffer requirement. In publishing this update, the Bank of Italy reviewed the decision, made at the time the CRD IV was transposed into Italian law in January 2014, where the fully loaded Capital Conservation Buffer at 2.50 per cent. was requested, by aligning national regulation to the transitional regime allowed by CRD IV.

In addition, the Issuer is subject to the Pillar 2 requirements for banks imposed under the CRD IV Package, which will be impacted, on an on-going basis, by the SREP. The SREP is aimed at ensuring that institutions have in place adequate arrangements, strategies, processes and mechanisms to maintain the amounts, types and distribution of internal capital commensurate to their risk profile, as well as robust governance and internal control arrangements. The key purpose of the SREP is to ensure that institutions have adequate arrangements as well as capital and liquidity to ensure sound management and coverage of the risks to which they are or might be exposed, including those revealed by stress testing, as well as risks the institution may pose to the financial system. See "*ECB Single Supervisory Mechanism*" below for further details.

The quantum of any Pillar 2 requirement imposed on a bank, the type of capital which it must apply to meeting such capital requirements, and whether the Pillar 2 requirement is "stacked" below the capital buffers (i.e. the bank's capital resources must first be applied to meeting the Pillar 2 requirements in full before capital can be applied to meeting the capital buffers) or "stacked" above the capital buffers (i.e. the bank's capital resources can be applied to meeting the capital buffers in priority to the Pillar 2 requirement) may all impact a bank's ability to comply with the combined buffer requirement.

As set out in the "Opinion of the European Banking Authority on the interaction of Pillar 1, Pillar 2 and combined buffer requirements and restrictions on distributions" published on 16 December 2015, in the EBA's opinion competent authorities should ensure that the Common Equity Tier 1 Capital to be taken into account in determining the Common Equity Tier 1 Capital available to meet the combined buffer requirement is limited to the amount not used to meet the Pillar 1 and Pillar 2 own funds requirements of the institution. In effect, this would mean that Pillar 2 capital requirements would be "stacked" below the capital buffers, and thus a firm's CET1 resources would only be applied to meeting capital buffer requirements after Pillar 1 and Pillar 2 capital requirements have been met in full.

However, more recently, the EBA and the ECB appear to have adopted a different approach to Pillar 2. In its publication of the 2016 EU-wide stress test results on 29 July 2016, the EBA has recognised a distinction between "pillar 2 requirements" (stacked below the capital buffers) and "Pillar 2 capital guidance" (stacked above the capital buffers). With respect to Pillar 2 capital guidance, the publication stated that, in response to the stress test results, competent authorities may (among other things) consider "setting capital guidance, above the combined buffer requirement. Competent authorities have remedial tools if an institution refuses to follow such guidance. The ECB published a set of "Frequently asked questions on the 2016 EU-wide stress test", confirming this distinction between Pillar 2 requirements and Pillar 2 capital guidance and noting that "Under the stacking order, banks facing losses will first fail to fulfil their Pillar 2 capital guidance. In case of further losses, they would next breach the combined buffers, then Pillar 2 requirements, and finally Pillar 1 requirements".

The CRD Reform Package (as defined below) proposes to legislate this distinction between "Pillar 2 requirements" and "Pillar 2 capital guidance". Whereas the former are mandatory requirements imposed by supervisors to address risks not covered or not sufficiently covered by Pillar 1 and buffer capital requirements, the latter refers to the possibility for competent authorities to communicate to an institution their expectations for such institution to hold capital in excess of its capital requirements (Pillar 1 and Pillar 2) and combined buffer requirements in order to cope with forward-looking and remote situations. Under the CRD Reform Package proposals, (and as described above), only Pillar 2 requirements, and not Pillar 2 capital guidance, will be relevant in determining whether an institution is meeting its combined buffer requirement.

Non-compliance with Pillar 2 capital guidance does not amount to failure to comply with capital requirements, but should be considered as a "pre-alarm warning" to be used in the Bank's risk management process. If capital levels go below Pillar 2 capital guidance, the relevant supervisory authorities, which should be promptly informed in detail by the Bank of the reasons of the failure to comply with the Pillar 2 capital guidance, will take into consideration appropriate and proportional measures on a case by case basis (including, by way of example, the possibility of implementing a plan aimed at restoring compliance with the capital requirements - including capital strengthening requirements).

As part of the CRD IV Package transitional arrangements, regulatory capital recognition of outstanding instruments which qualified as Tier I and Tier II capital instruments under the framework which the CRD IV Package has replaced that no longer meet the minimum criteria under the CRD IV Package will be gradually phased out. Fixing the base at the nominal amount of such instruments outstanding on 1 January 2013, their recognition is capped at 80 per cent. in 2014, with this cap decreasing by 10 per cent. in each subsequent year.

The CRD IV Package introduces a new leverage ratio with the aim of restricting the level of leverage that an institution can take on to ensure that an institution's assets are in line with its capital. The Leverage Ratio

Delegated Regulation (EU) No. 2015/62, adopted on 10 October 2014, and published in the Official Journal of the European Union in January 2015, amends the calculation of the leverage ratio compared to the current text of the CRR. Institutions have been required to disclose their leverage ratio from 1 January 2015. Full implementation of the leverage ratio as a Pillar 1 measure is currently under consultation as part of the CRD Reform Package, as defined below.

The CRD IV Package contains specific mandates for the EBA to develop draft regulatory or implementing technical standards as well as guidelines and reports related to liquidity coverage ratio and leverage ratio in order to enhance regulatory harmonisation in Europe through the Single Rule Book.

Should the Issuer not be able to implement the approach to capital requirements it considers optimal in order to meet the capital requirements imposed by the CRD IV Package, it may be required to maintain levels of capital which could potentially impact its credit ratings, funding conditions and which could limit the Issuer's growth opportunities.

Forthcoming regulatory changes

In addition to the substantial changes in capital and liquidity requirements introduced by Basel III and the CRD IV Package, there are several other initiatives, in various stages of finalisation, which represent additional regulatory pressure over the medium term and will impact the EU's future regulatory direction. These initiatives include, among others, a revised Markets in Financial Instruments EU Directive and Markets in Financial Instruments EU Regulation which are expected to apply as of 3 January 2018, subject to certain transitional arrangements. The Basel Committee has also published certain proposed changes to the current securitisation framework which may be accepted and implemented in due course.

On 9 November 2015, the FSB published its final TLAC Principles and Term Sheet, proposing that G-SIBs maintain significant minimum amounts of liabilities that are subordinated (by law, contract or structurally) to liabilities excluded from TLAC, such as guaranteed insured deposits, derivatives, etc. and which forms a new standard for G-SIBs. The TLAC Principles and Term Sheet contains a set of principles on loss absorbing and recapitalisation capacity of G-SIBs in resolution and a term sheet for the implementation of these principles in the form of an internationally agreed standard. The FSB will undertake a review of the technical implementation of the TLAC Principles and Term Sheet by the end of 2019. The TLAC Principles and Term Sheet require a minimum TLAC requirement for each G-SIB at the greater of (a) 16 per cent. of RWA as of 1 January 2019 and 18 per cent. as of 1 January 2022, and (b) 6 per cent. of the Basel III Tier 1 leverage ratio requirement as of 1 January 2019, and 6.75 per cent. as of 1 January 2022.

Based on the most recently updated FSB list of G-SIBs published in November 2016 (to be updated annually), the BMPS Group is not a G-SIB and it will not be subject to the TLAC requirements when they are implemented into applicable law, provided that at that time the BMPS Group will still not be included in the list of G-SIBs.

On 23 November 2016, the European Commission released a package of proposals amending CRD IV, the CRR, the BRRD and the SRM Regulation, which is expected to become applicable beginning in 2019 (but this will ultimately depend on the procedure and the outcome of the discussions in the European Parliament and the Council). Among other things, these proposals aim to implement a number of new Basel standards (such as the leverage ratio, the net stable funding ratio, market risk rules and requirements for own funds and eligible liabilities) and to transpose the FSB's TLAC termsheet into European law. Once these proposals are finalised, changes to the CRR will become directly applicable to the BMPS Group. The CRD IV amendments and the amendments to the BRRD will need to be transposed into Italian law before taking effect. See "*The Bank Recovery and Resolution Directive is intended to enable a range of actions to be taken in relation to credit institutions and investment firms considered to be at risk of failing. The taking of any such actions (or the perception that the taking of any such action may occur) could materially adversely affect the value of any Notes and/or the rights of Noteholders*" below for further details on the implementation of TLAC in the EEA through changes to the BRRD.

The Basel Committee has embarked on a very significant RWA variability agenda. This includes the Fundamental Review of the Trading Book, revised standardised approaches (credit, counterparty credit, market, operational risk), constraints to the use of internal models as well as the introduction of a capital floor. The regulator's primary aim is to eliminate unwarranted levels of RWA variance, to improve consistency and comparability between banks. The finalisation of the new framework was completed in respect of market risk in 2016, with the new framework for credit risk and operational risk not yet finalised. Due to the wide undergoing revision by global and European regulators and supervisors, the internal models are expected to be

subject to either changes or withdrawal in favor of a new standardised approach, which is also under revision. The regulatory changes will impact the entire banking system and consequently could lead to changes in the measurement of capital (although they will become effective after the time frame covered by the Strategic Plan). In 2016, the ECB began the TRIM, with the objective of ensuring the adequacy and comparability of the models given the highly fragmented nature of Internal Ratings-Based systems used by banks, and the resulting diversity in measurement of capital requirements. The review covers credit, counterparty and market risks. The TRIM will be ongoing through 2018 and is structured in two stages, with an institution-specific review commenced in 2016 and a model specific review in 2017 and 2018.

In March 2015, the EBA undertook the revision of some specific aspects of the RWA internal models, encouraging a major convergence between European banking supervision practices. So far the EBA has finalised the regulatory standards for the Internal Rating Based methodology and the Guidelines on the new Definition of Default. The final Guidelines on Probability of Default and the LGD estimation and treatment of defaulted assets are expected by the end of 2017. Based on the EBA's proposal, the rules for internally estimating the LGD would become significantly tighter. The implementation of all the proposed changes is expected by the end of 2020.

There can be no assurance that the implementation of the new capital requirements, standards and recommendations described above will not require BMPS to issue additional securities that qualify as regulatory capital, to liquidate assets, to curtail business or to take any other actions, any of which may have adverse effects on the Bank's business, financial condition and results of operations. Furthermore, increased capital requirements may negatively affect BMPS's return on equity and other financial performance indicators.

Prospective investors in the Notes should consult their own advisors as to the consequences for them of the application of the above regulations as implemented by each Member State.

ECB Single Supervisory Mechanism

In October 2013, the Council of the European Union adopted regulations establishing the SSM for all banks in the euro area, which have, beginning in November 2014, given the ECB, in conjunction with the national competent authorities of the eurozone states, direct supervisory responsibility over "banks of systemic importance" in the Banking Union as well as their subsidiaries in a participating non-euro area Member State. The SSM Regulation setting out the practical arrangements for the SSM was published in April 2014 and entered into force in May 2014. Banks directly supervised by the ECB include, *inter alia*, any eurozone bank that has: (i) assets greater than €30 billion; (ii) assets constituting at least 20 per cent of its home country's gross domestic product; or (iii) requested or received direct public financial assistance from the European Financial Stability Facility or the European Stability Mechanism.

The ECB is also exclusively responsible for key tasks concerning the prudential supervision of credit institutions, which includes, inter alia, the power to: (i) authorise and withdraw the authorisation of all credit institutions in the eurozone; (ii) assess acquisition and disposal of holdings in other banks; (iii) ensure compliance with all prudential requirements laid down in general EU banking rules; (iv) set, where necessary, higher prudential requirements for certain banks to protect financial stability under the conditions provided by EU law; (v) ensure compliance with robust corporate governance practices and internal capital adequacy assessment controls; and (vi) intervene at the early stages when risks to the viability of a bank exist, in coordination with the relevant resolution authorities. The ECB also has the right to impose pecuniary sanctions.

National competent authorities will continue to be responsible for supervisory matters not conferred on the ECB, such as consumer protection, money laundering, payment services, and branches of third country banks, besides supporting ECB in day-to-day supervision. In order to foster consistency and efficiency of supervisory practices across the EU, the EBA is developing a Single Rule Book. The Single Rule Book aims to provide a single set of harmonised prudential rules which institutions throughout the EU must respect.

The ECB has fully assumed its new supervisory responsibilities of the BMPS Group. The ECB is required under the SSM Regulation to carry out a SREP at least on an annual basis. In addition to the above, the EBA published on 19 December 2014 its final guidelines for common procedures and methodologies in respect of the SREP (the "**EBA SREP Guidelines**"). Included in these guidelines were the EBA's proposed guidelines for a common approach to determining the amount and composition of additional Pillar 2 own funds requirements to be implemented from 1 January 2016. Under these guidelines, national supervisors should set a composition requirement for the Pillar 2 requirements to cover certain specified risks of at least 56 per cent.

CET1 Capital and at least 75 per cent. Tier 1 capital. See "*Risks associated with capital adequacy*" for further information regardne the actual composition of the Bank's TSCR. The guidelines also contemplate that national supervisors should not set additional own funds requirements in respect of risks which are already covered by the combined buffer requirements (as described above) and/or additional macro-prudential requirements. Accordingly, additional capital requirements have been imposed on the BMPS Group by the ECB pursuant to the SREP Decision. For more details on risks associated with the SREP requirements, please see "*Risks associated with capital adequacy*" and "*Risks associated with the investigations of supervisory authorities*" above.

The Bank Recovery and Resolution Directive is intended to enable a range of actions to be taken in relation to credit institutions and investment firms considered to be at risk of failing. The taking of any such actions (or the perception that the taking of any such action may occur) could materially adversely affect the value of any Notes and/or the rights of Noteholders

On 2 July 2014 the BRRD entered into force and Member States were expected to implement the majority of its provisions. On 23 November 2016, the European Commission published a proposal to amend certain provisions of the BRRD (the "**BRRD Reforms**"). The proposal includes an amendment to Article 108 of the BRRD aimed at further harmonising the creditor hierarchy as regards the priority ranking of holders of bank senior unsecured debt in resolution and insolvency. A new class of so called "senior non-preferred debt" is proposed to be added that would be eligible to meet the TLAC and MREL requirements. This new class of debt will be senior to all subordinated debt, but junior to ordinary unsecured senior claims. The envisaged amendments to the BRRD should not affect the existing stocks of bank debt and their statutory ranking in insolvency pursuant to the relevant laws of the Member State in which the bank is incorporated.

The BRRD provides resolution authorities with comprehensive arrangements to deal with failing banks at national level, as well as cooperation arrangements to tackle cross-border banking failures.

The BRRD sets out the rules for the resolution of banks and large investment firms in all EU Member States. Banks are required to prepare recovery plans to overcome financial distress. Competent authorities are also granted a set of powers to intervene in the operations of banks to avoid them failing. If banks do face failure, resolution authorities are equipped with comprehensive powers and tools to restructure them, allocating losses to shareholders and creditors following a specified hierarchy. Resolution authorities have the powers to implement plans to resolve failing banks in a way that preserves their most critical functions and avoids taxpayer bail outs.

The BRRD contains four resolution tools and powers which may be used alone (except for the asset separation tool) or in combination with other resolution tools where the relevant resolution authority considers that (a) an institution is failing or likely to fail, (b) there is no reasonable prospect that any alternative private sector measures would prevent the failure of such institution within a reasonable timeframe, and (c) a resolution action is in the public interest: (i) sale of business - which enables resolution authorities to direct the sale of the institution or the whole or part of its business on commercial terms; (ii) bridge institution - which enables resolution authorities to transfer all or part of the business of the firm to a "bridge institution" (an entity created for this purpose that is wholly or partially in public control); (iii) asset separation - which enables resolution authorities to transfer impaired or problem assets to one or more publicly owned asset management vehicles to allow them to be managed with a view to maximising their value through eventual sale or orderly wind-down (this can be used together with another resolution tool only); and (iv) bail-in - which gives resolution authorities the power to write down certain claims of unsecured creditors of a failing institution and to convert certain unsecured debt claims (including Senior Notes and Subordinated Notes) into shares or other instruments of ownership (i.e. other instruments that confer ownership, instruments that are convertible into or give the right to acquire shares or other instruments of ownership, and instruments representing interests in shares or other instruments of ownership) (the "**general bail-in tool**"). Such shares or other instruments of ownership could also be subject to any future application of the BRRD. For more details on the implementation in Italy please refer to the paragraphs below.

An SRF (as defined above) was set up under the control of the SRB. It will ensure the availability of funding support while the bank is resolved. It is funded by contributions from the banking sector. The SRF can only contribute to resolution if at least 8 per cent. of the total liabilities including own funds of the bank have been bailed-in.

The BRRD requires all Member States to create a national, prefunded resolution fund, reaching a level of at least 1 per cent. of covered deposits by 31 December 2024. The national resolution fund for Italy was created in November 2015 and required both ordinary and extraordinary contributions to be made by Italian banks and

investment firms, including the Issuer. In the European banking union, the national resolution funds set up under the BRRD were superseded by the SRF as of 1 January 2016 and those funds will be pooled together gradually. Therefore, as of 2016, the Single Resolution Board calculates, in line with a Council implementing act, the annual contributions of all institutions authorised in the Member States participating in the SSM and the SRM (as defined below). The SRF is financed by the European banking sector. The total target size of the fund is equal to at least 1 per cent. of the covered deposits of all banks in the Member States participating in the European banking union. The SRF is to be built up over eight years, beginning in 2016, to the target level of €55 billion (the basis being 1 per cent. of the covered deposits in the financial institutions of the European banking union). Once this target level is reached, in principle, the banks will have to contribute only if the resources of the SRF are exhausted in order to deal with resolutions of other institutions.

Under the BRRD, the target level of the national resolution funds is set at national level and calculated on the basis of deposits covered by deposit guarantee schemes. Under the SRM, the target level of the SRF is European and is the sum of the covered deposits of all institutions established in the participating Member States. This would result in significant variations in the contributions by the banks under the SRM as compared to the BRRD. As a consequence of this difference, when contributions will be paid based on a joint target level as of 2016, contributions of banks established in Member States with high level of covered deposits would have sometimes abruptly decreased, while contributions of those banks established in Member States with fewer covered deposits would have sometimes abruptly increased. In order to prevent such abrupt changes, the Council Implementing Act provides for an adjustment mechanism to remedy these distortions during the transitional period by way of a gradual phasing in of the SRM methodology.

The BRRD also provides for a Member State as a last resort, after having assessed and applied the above resolution tools (including the general bail-in tool) to the maximum extent practicable whilst maintaining financial stability, to be able to provide extraordinary public financial support through additional financial stabilisation tools. These consist of the public equity support and temporary public ownership tools. Any such extraordinary financial support must be provided in accordance with the burden sharing requirements of the EU state aid framework and the BRRD.

As an exemption from these principles, the BRRD allows for three kinds of extraordinary public support to be provided to a solvent institution without triggering resolution: 1) a State guarantee to back liquidity facilities provided by central banks according to the central banks' conditions; 2) a State guarantee of newly issued liabilities; or 3) an injection of own funds in the form of precautionary recapitalisation. In the case of precautionary recapitalization EU state aid rules require that shareholders and junior bond holders contribute to the costs of restructuring (referred to as "burden sharing").

In addition to the general bail-in tool and other resolution tools, the BRRD provides for resolution authorities to have the further power to write-down permanently/convert into equity capital instruments such as Subordinated Notes at the point of non-viability and before any other resolution action is taken with losses taken in accordance with the priority of claims under normal insolvency proceedings ("**Non-Viability Loss Absorption**"). Any shares issued to holders of Subordinated Notes upon any such conversion into equity capital instruments may also be subject to any future application of the BRRD.

For the purposes of the application of any Non-Viability Loss Absorption measure, the point of non-viability under the BRRD is the point at which the relevant authority determines that the institution meets the conditions for resolution (but no resolution action has yet been taken) or that the institution or, in certain circumstances, its group, will no longer be viable unless the relevant capital instruments (such as Subordinated Notes) are written-down/converted or extraordinary public support is to be provided and without such support the appropriate authority determines that the institution and/or, as appropriate, its group, would no longer be viable.

In the context of these resolution tools, the resolution authorities have the power to amend or alter the maturity of certain debt instruments (such as the Senior Notes and Subordinated Notes) issued by an institution under resolution or amend the amount of interest payable under such instruments, or the date on which the interest becomes payable, including by suspending payment for a temporary period.

The BRRD has been implemented in Italy through the adoption of the BRRD Decrees, which were published in the Italian Official Gazette (*Gazzetta Ufficiale*) on 16 November 2015. Decree 180 is a stand-alone law which implements the provisions of BRRD relating to resolution actions, while Legislative Decree No. 181/2015 amends the existing Italian Consolidated Banking Act (Legislative Decree No. 385 of 1 September 1993, as amended) and deals principally with recovery plans, early intervention and changes to the creditor hierarchy. The BRRD Decrees entered into force on the date of publication on the Italian Official Gazette (i.e.

16 November 2015), save that: (i) the general bail-in tool applied from 1 January 2016; and (ii) a "depositor preference" granted for deposits other than those protected by the deposit guarantee scheme and excess deposits of individuals and SME's will apply from 1 January 2019. For further information on the application of Decree 180, please refer to "*Risks associated with the investment in the Issuer shares and the recovery and resolution mechanisms of failing enterprises*" above.

It is important to note that, pursuant to article 49 of Decree 180, resolution authorities may not exercise the write down/conversion powers in relation to secured liabilities, including covered bonds or their related hedging instruments, save to the extent that these powers may be exercised in relation to any part of a secured liability (including covered bonds and their related hedging instruments) that exceeds the value of the assets, pledge, lien or collateral against which it is secured.

In addition, because (i) Article 44(2) of the BRRD excludes certain liabilities from the application of the general bail-in tool and (ii) the BRRD provides, at Article 44(3), that the resolution authority may in specified exceptional circumstances partially or fully exclude certain further liabilities from the application of the general bail-in tool, the BRRD specifically contemplates that *pari passu* ranking liabilities may be treated unequally. Accordingly, holders of Senior Notes and Subordinated Notes of a Series may be subject to write-down/conversion upon an application of the general bail-in tool while other Series of Senior Notes or, as appropriate, Subordinated Notes (or, in each case, other *pari passu* ranking liabilities) are partially or fully excluded from such application of the general bail-in tool. Further, although the BRRD provides a safeguard in respect of shareholders and creditors upon application of resolution tools, Article 75 of the BRRD sets out that such protection is limited to the incurrence by shareholders or, as appropriate, creditors, of greater losses as a result of the application of the relevant tool than they would have incurred in a winding up under normal insolvency proceedings. It is therefore possible not only that the claims of other holders of junior or *pari passu* liabilities may have been excluded from the application of the general bail-in tool and therefore the holders of such claims receive a treatment which is more favourable than that received by holders of Senior Notes or Subordinated Notes, but also that the safeguard referred to above does not apply to ensure equal (or better) treatment compared to the holders of such fully or partially excluded claims because the safeguard is not intended to address such possible unequal treatment but rather to ensure that shareholders or creditors do not incur greater losses in a bail-in (or other application of a resolution tool) than they would have received in a winding up under normal insolvency proceedings.

Also, in respect of Senior Notes, Article 108 of the BRRD requires that Member States modify their national insolvency regimes such that deposits of natural persons and micro, small and medium sized enterprises in excess of the coverage level contemplated by deposit guarantee schemes created pursuant to Directive 2014/49/EU have a ranking in normal insolvency proceedings which is higher than the ranking which applies to claims of ordinary, unsecured, non-preferred creditors, such as holders of Senior Notes. In addition, the BRRD does not prevent Member States, including Italy, from amending national insolvency regimes to provide other types of creditors, with rankings in insolvency higher than ordinary, unsecured, non-preferred creditors. Legislative Decree No. 181/2015 has amended the creditor hierarchy in the case of admission of Italian banks and investment firms to liquidation proceedings (and therefore the hierarchy which will apply in order to assess claims pursuant the safeguard provided for in Article 75 of the BRRD as described above), by providing that, as from 1 January 2019, all deposits other than those protected by the deposit guarantee scheme and excess deposits of individuals and SME's (which benefit from the super-priority required under Article 108 of the BRRD) will benefit from priority over senior unsecured liabilities, though with a ranking which is lower than that provided for individual/SME deposits exceeding the coverage limit of the deposit guarantee scheme. This means that, as from 1 January 2019, significant amounts of liabilities in the form of large corporate and interbank deposits which under the national insolvency regime currently in force in Italy rank *pari passu* with Senior Notes, will rank higher than Senior Notes in normal insolvency proceedings and therefore that, on application of the general bail-in tool, such creditors will be written-down/converted into equity capital instruments only after Senior Notes. Therefore, the safeguard set out in Article 75 of the BRRD (referred to above) would not provide any protection against this result since, as noted above, Article 75 of the BRRD only seeks to achieve compensation for losses incurred by creditors which are in excess of those which would have been incurred in a winding-up under normal insolvency proceedings.

Legislative Decree No. 181/2015 has also introduced strict limitations on the exercise of the statutory rights of set-off normally available under Italian insolvency laws, in effect prohibiting set-off by any creditor in the absence of an express agreement to the contrary. Since each holder of Subordinated Notes and, in circumstances where the waiver is selected as applicable in the relevant Final Terms, the holders of the Senior Notes will have expressly waived any rights of set-off, netting, counterclaim, abatement or other similar

remedy which they might otherwise have, under the laws of any jurisdiction, in respect of such Senior Notes or Subordinated Notes, it is clear that the statutory right of set-off available under Italian insolvency laws will likewise not apply.

As the BRRD has only recently been implemented in Italy and other Member States, there is uncertainty as to the effects of its application in practice.

The powers set out in the BRRD will impact how credit institutions and investment firms are managed as well as, in certain circumstances, the rights of creditors. Holders of Senior Notes and Subordinated Notes may be subject to write-down or conversion into equity capital instruments on any application of the general bail-in tool and, in the case of Subordinated Notes, Non-Viability Loss Absorption, which may result in such holders losing some or all of their investment. The exercise of these, or any other power, under the BRRD, or any suggestion, or perceived suggestion, of such exercise could, therefore, materially adversely affect the rights of Noteholders, the price or value of their investment in any Notes and/or the ability of the Issuer to satisfy its obligations under any Notes.

In addition to the capital requirements under CRD IV, the BRRD introduces requirements for banks to maintain at all times a sufficient aggregate amount of the MREL. The aim is that the minimum amount should be proportionate and adapted for each category of bank on the basis of their risk or the composition of their sources of funding and to ensure adequate capitalisation to continue exercising critical functions post resolution. The final draft regulatory technical standards published by the EBA in July 2015 set out the assessment criteria that resolution authorities should use to determine the MREL for individual firms.

The BRRD does not currently foresee an absolute minimum, but attributes the competence to set a minimum amount for each bank to national resolution authorities (for banks not subject to supervision by the ECB) or to the Single Resolution Board (the "**SRB**") for banks subject to direct supervision by the ECB. The EBA has issued its final draft regulatory technical standards which further define the way in which national resolution authorities/the SRB shall calculate MREL. As from 1 January 2016, the resolution authority for the Bank is the SRB and it is subject to the authority of the SRB for the purposes of determination of its MREL requirement. The SRB has indicated that it took core features of the TLAC standard into account in its 2016 MREL decisions and also that it may make decisions on the quality (in particular a subordination requirement) for all or part of the MREL. The SRB has targeted the end of 2017 for calculating binding MREL targets (applicable from 2019) at the consolidated level of all banking groups under its remit. MREL decisions for subsidiaries will be made in a second stage, based on, among other things, their individual characteristics and the consolidated level which has been set for the group. The draft regulatory technical standards published by the EBA contemplate that a maximum transitional period of 48 months may be applied for the purposes of meeting the full MREL requirement.

At the same time as it released the CRD Reform Package, the European Commission released the BRRD Reforms. Among other things, these proposals aim to implement TLAC and to ensure consistency, where appropriate, of MREL with TLAC. These proposals introduce a minimum harmonised MREL requirement (also referred to as a "**Pillar 1 MREL requirement**") applicable to G-SIIs only. In addition, resolution authorities will be able, on the basis of bank-specific assessments, to require that G-SIIs comply with a supplementary MREL requirement (a "**Pillar 2 MREL requirement**"). Banks will be allowed to use certain additional types of loss absorbent liabilities to comply with their Pillar 2 MREL requirement.

In order to ensure compliance with MREL requirements, and in line with the FSB standard on TLAC, the BRRD Reforms propose that in case a bank does not have sufficient eligible liabilities to comply with its MREL, the resultant shortfall is automatically filled up with CET1 Capital that would otherwise be counted towards meeting the combined capital buffer requirement. However, the BRRD Reforms envisage that a six-month grace period may apply before restrictions to discretionary payments to the holders of regulatory capital instruments and employees take effect due to a breach of the combined capital buffer requirement.

As of 2016, the Group is subject to the provisions of the Regulation establishing the Single Resolution Mechanism

After having reached an agreement with the Council, in April 2014, the European Parliament adopted the Regulation establishing a Single Resolution Mechanism (the "**SRM**"). The SRM became fully operational on 1 January 2016. Certain provisions, including those concerning the preparation of resolution plans and provisions relating to the cooperation of the SRB with national resolution authorities, entered into force on 1 January 2015. On 23 November 2016, the European Commission published a proposal to amend certain provisions of the SRM. In particular the main objective of such proposal is to implement the TLAC standard

and to integrate the TLAC requirement into the general MREL rules by avoiding duplication by applying two parallel requirements.

The SRM, which complements the ECB Single Supervisory Mechanism, applies to all banks supervised by the ECB Single Supervisory Mechanism. It mainly consists of the SRB and a Single Resolution Fund (the "**SRF**", see risk factor "*The Bank Recovery and Resolution Directive is intended to enable a range of actions to be taken in relation to credit institutions and investment firms considered to be at risk of failing. The taking of any such actions (or the perception that the taking of any such action may occur) could materially adversely affect the value of the Notes and/or the rights of Noteholders*" for details).

Decision-making is centralised with the SRB, and involves the European Commission and the Council (which will have the possibility to object to the SRB's decisions) as well as the ECB and national resolution authorities.

The establishment of the SRM is designed to ensure that supervision and resolution is exercised at the same level for countries that share the supervision of banks within the ECB Single Supervisory Mechanism.

The Group may be subject to a proposed EU regulation on mandatory separation of certain banking activities

On 29 January 2014, the European Commission adopted a proposal for a new regulation on structural reform of the European banking sector following the recommendations released on 31 October 2012 by the High Level Expert Group (the "**Liikanen Group**") on the mandatory separation of certain banking activities. The proposed regulation contains new rules which would prohibit the biggest and most complex banks from engaging in the activity of proprietary trading and introduce powers for supervisors to separate certain trading activities from the relevant bank's deposit-taking business if the pursuit of such activities compromises financial stability. This proposal was intended to take effect from 2017. However, legislative progress of the regulation has stalled.

Risks related to Sanctioned Countries

The Issuer and the Group have many customers and partners who are located in various countries around the world. Some of the countries in which such customers and partners are located and/or otherwise operate are, or may become, subject to comprehensive country-wide or territory-wide sanctions issued by the United States of America, the European Union and/or the United Nations ("**Sanctioned Countries**"). Such sanctions may limit the ability of the Issuer and/or the Group to continue operating with such customers and partners moving forward.

In particular, since January 2016, the Bank has undertaken and, as at the date of this Base Prospectus, continues to undertake certain commercial transactions (being commercial payments, the making of documentary credits, and the creation of guarantees) involving a limited number of private and state-owned banks having registered addresses in Iran, Cuba and Syria. Such commercial transactions have all been, and are, carried out in full compliance with all sanctions laws applicable to the Bank and the Bank's internal sanctions-related policies and procedures for the purpose of supporting the Bank's selected Italian customers. The relevant revenues generated by the Bank from this business currently represent less than 1% of the Bank's total revenues. Neither the Bank nor the Group maintains any physical presence in Iran, Cuba and/or Syria, and the Bank's existing activities as described above are undertaken solely through the use of correspondent banking relationships. Nor does the Bank and/or the Group otherwise conduct any other material business in or with any Sanctioned Country. As at the date of this Base Prospectus, it is also not expected that this position will materially change moving forward.

All of the activities described in the preceding paragraph have been, and are, conducted in compliance with all laws applicable to the Bank, and are not believed to have caused any person to violate any sanctions. Nor are they expected to result in the Bank and/or any member of the Group themselves becoming the subject of sanctions. However, should such sanctions be hardened and/or should new sanctions be issued, there may be prejudicial effects on these operations as well as on the reputation of the Issuer and/or the Group. This, in turn, could result in negative effects on the capital, financial and economic situation of the Issuer and/or the Group. Furthermore, it cannot be excluded that the Issuer and/or the Group may become subject to boycotting or monitoring actions by non-governmental activist groups seeking to terminate the Bank's business relationships with its counterparties in, and its operations connected to, Sanctioned Countries.

FACTORS WHICH ARE MATERIAL FOR THE PURPOSE OF ASSESSING THE MARKET RISKS ASSOCIATED WITH NOTES ISSUED UNDER THE PROGRAMME

Risks related to the structure of a particular issue of Notes

A range of Notes may be issued under the Programme. A number of these Notes may have features which contain particular risks for potential investors. Set out below is a description of certain features, distinguishing between factors which may occur in relation to any Notes and those which might occur in relation to certain types of Exempt Notes:

Risks applicable to all Notes

If the Issuer has the right to redeem any Notes at its option or there is a perception that this is the case, this may limit the market value of the Notes concerned and should the Notes be redeemed an investor may not be able to reinvest the redemption proceeds in a manner which achieves a similar effective return.

An optional redemption feature is likely to limit the market value of the Notes. During any period when BMPS may elect to redeem Notes or there is a perception that this is the case, the market value of those Notes generally will not rise substantially above the price at which they can be redeemed. This may also be true prior to any redemption period.

BMPS may be expected to redeem Notes when its cost of borrowing is lower than the interest rate on the Notes. At those times, an investor generally would not be able to reinvest the redemption proceeds at an effective interest rate as high as the interest rate on the Notes being redeemed and may only be able to do so at a significantly lower rate. Potential investors should consider reinvestment risk in light of other investments available at that time.

If the Issuer has the right to change the interest rate on any Notes from a fixed rate to a floating rate, or vice versa, this may affect the secondary market and the market value of the Notes concerned.

Fixed/Floating Rate Notes are Notes which may bear interest at a rate that changes from a fixed rate to a floating rate, or from a floating rate to a fixed rate. Where the Issuer has the right to effect such a change, this will affect the secondary market and the market value of the Notes since the Issuer may be expected to change the rate when it is likely to produce a lower overall cost of borrowing. If the Issuer changes from a fixed rate to a floating rate in such circumstances, the spread on the Fixed/Floating Rate Notes may be less favourable than then prevailing spreads on comparable Floating Rate Notes tied to the same reference rate. In addition, the new floating rate at any time may be lower than the rates on other Notes. If the Issuer changes from a floating rate to a fixed rate in such circumstances, the fixed rate may be lower than then prevailing market rates.

Notes which are issued at a substantial discount or premium may experience price volatility in response to changes in market interest rates.

The market values of securities issued at a substantial discount (such as Zero Coupon Notes) or premium to their principal amount tend to fluctuate more in relation to general changes in interest rates than do prices for more conventional interest-bearing securities. Generally, the longer the remaining term of such securities, the greater the price volatility as compared to more conventional interest-bearing securities with comparable maturities.

Early Redemption of the Notes for tax reasons

In the event that the Issuer would be obliged to increase the amounts payable in respect of any Notes due to any withholding or deduction for or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or on behalf of Italy or any political subdivision thereof or any authority therein or thereof having power to tax, the Issuer may redeem all outstanding Notes in accordance with the Terms and Conditions of the Notes. See also "*If the Issuer has the right to redeem any Notes at its option or there is a perception that this is the case, this may limit the market value of the Notes concerned and should the Notes be redeemed an investor may not be able to reinvest the redemption proceeds in a manner which achieves a similar effective return*" above.

Waiver of set-off

As specified in Condition 2, subsection (a) (*Status of Senior Notes*), each holder of a Senior Note will unconditionally and irrevocably waive any right of set-off, netting, counterclaim, abatement or other

similar remedy which it might otherwise have, under the laws of any jurisdiction, in respect of such Senior Note.

As specified in Condition 2, subsection (b) (*Status of Subordinated Notes*), each holder of a Subordinated Note unconditionally and irrevocably waives any right of set-off, netting, counterclaim, abatement or other similar remedy which it might otherwise have, under the laws of any jurisdiction, in respect of such Subordinated Note.

Potential conflicts of interest with the Calculation Agent

Potential conflicts of interest may exist between the Calculation Agent (if any) and Noteholders (including where a Dealer acts as a calculation agent), including with respect to certain determinations and judgments that such Calculation Agent may make pursuant to the Conditions that may influence amounts receivable by the Noteholders during the term of the Notes and upon their redemption.

Senior Notes and Subordinated Notes have limited Events of Default and remedies

The Events of Default in respect of Senior Notes and Subordinated Notes, being events upon which the Noteholders may declare the Notes to be immediately due and payable, are limited to circumstances in which the Issuer (i) is liquidated (including when the Issuer becomes subject to *Liquidazione Coatta Amministrativa* as defined in the Italian Consolidated Banking Act (as amended from time to time)) or (ii) is insolvent as set out in Condition 8. Accordingly, other than following the occurrence of an Event of Default, even if the Issuer fails to meet any of its obligations under the Notes, including the payment of any interest, the Noteholders will not have the right of acceleration of principal and the sole remedy available to Noteholders for recovery of amounts owing in respect of any of the Notes will be the institution of proceedings to enforce such payment. Notwithstanding the foregoing, the Issuer will not, by virtue of the institution of any such proceedings, be obliged to pay any sum or sums sooner than the same would otherwise have been payable by it.

Risks applicable to Senior Notes

Senior Notes could be subject to Issuer Call due to MREL Disqualification Event

If at any time a MREL Disqualification Event occurs and is continuing in relation to any Series of Senior Notes, and the Form of Final Terms for the Senior Notes of such Series specify that Issuer Call due to MREL Disqualification Event is applicable, the Issuer may (subject to the provisions of Condition 5(i) (*Conditions to Redemption and Purchase of Senior Notes*), elect to redeem all, but not some only, of the Senior Notes of such Series. A MREL Disqualification Event shall be deemed to have occurred if, by reason of the introduction of or a change in the MREL Requirements which was not reasonably foreseeable by the Issuer at the Issue Date of the Senior Notes, all or part of the aggregate outstanding nominal amount of such Series of Senior Notes are or will be excluded fully or partially from the eligible liabilities available to meet the MREL Requirements. The applicability of the minimum requirements for eligible liabilities under the BRRD is subject to the implementation of the BRRD in Italy.

If the Senior Notes are to be so redeemed, there can be no assurance that Noteholders will be able to reinvest the redemption proceeds at an effective interest rate as high as the interest rate on the Senior Notes being redeemed. Potential investors should consider reinvestment risk in light of other investments available at that time.

See also "*If the Issuer has the right to redeem any Notes at its option or there is a perception that this is the case, this may limit the market value of the Notes concerned and should the Notes be redeemed an investor may not be able to reinvest the redemption proceeds in a manner which achieves a similar effective return*" above.

Risks applicable to Subordinated Notes

An investor in Subordinated Notes assumes an enhanced risk of loss in the event of the Issuer's insolvency

BMPS's obligations under Subordinated Notes will be unsecured and subordinated and will rank junior in priority of payment to Senior Liabilities. "**Senior Liabilities**" means any unconditional, unsubordinated and unsecured obligations of BMPS. Although Subordinated Notes may pay a higher rate of interest than comparable Notes which are not subordinated, there is a real risk that an investor in Subordinated Notes will lose all or some of his investment should BMPS become insolvent.

In no event will holders of Subordinated Notes be able to accelerate the maturity of their Subordinated Notes; such holders will have claims only for amounts then due and payable on their Subordinated Notes.

Subordinated Notes could be subject to redemption for regulatory reasons

The intention of BMPS is for Subordinated Notes to qualify on issue as "Tier 2 capital" for regulatory purposes. However, current regulatory practice by the Bank of Italy does not require (or customarily provide) a confirmation prior to the issuance of Subordinated Notes that the Notes will be treated as such.

If Regulatory Call is specified as applicable in the Final Terms, upon the occurrence of a Capital Event (as defined in Condition 5(d) (Redemption for Regulatory Reasons), the Issuer may (subject to the provisions of Condition 5(h)), elect to redeem the Subordinated Notes. In the event of a redemption for regulatory reasons, there can be no assurance that an investor will be able to reinvest the redemption proceeds at an effective interest rate as high as the interest rate on the Subordinated Notes being redeemed. Potential investors should consider reinvestment risk in light of other investments available at that time.

See also "*If the Issuer has the right to redeem any Notes at its option or there is a perception that this is the case, this may limit the market value of the Notes concerned and should the Notes be redeemed an investor may not be able to reinvest the redemption proceeds in a manner which achieves a similar effective return*" above.

Subordinated Notes may be subject to loss absorption on any application of the general bail-in tool or at the point of non-viability of the Issuer or, in certain circumstances, the Group.

The Bank Recovery and Resolution Directive contemplates that Subordinated Notes may be subject to non-viability loss absorption, in addition to the application of the general bail-in tool. See "*The Bank Recovery and Resolution Directive is intended to enable a range of actions to be taken in relation to credit institutions and investment firms considered to be at risk of failing. The taking of any such actions (or the perception that implementation of the directive or the taking of any such action may occur) under it could materially adversely affect the value of any Notes and/or the rights of Noteholders*".

The interest rate on Reset Notes will reset on each Reset Date, which can be expected to affect the interest payment on an investment in Reset Notes and could affect the market value of the Reset Notes

Reset Notes will initially bear interest at the Initial Rate of Interest from and including the Interest Commencement Date up to but excluding the First Reset Date. On the First Reset Date, the Second Reset Date (if applicable) and each Subsequent Reset Date (if any) thereafter, the interest rate will be reset to the sum of the applicable Mid-Swap Rate and the First Margin or Subsequent Margin (as applicable) as determined by the Calculation Agent on the relevant Reset Determination Date (each such interest rate, a "**Subsequent Reset Rate of Interest**"). The Subsequent Reset Rate of Interest for any Reset Period could be less than the Initial Rate of Interest or the Subsequent Reset Rate of Interest for prior Reset Periods and could affect the market value of an investment in the Reset Notes.

Risks applicable to certain types of Exempt Notes

Where Notes are issued on a partly paid basis, an investor who fails to pay any subsequent instalment of the issue price could lose all of his investment.

The Issuer may issue Notes where the issue price is payable in more than one instalment. Any failure by an investor to pay any subsequent instalment of the issue price in respect of his Notes could result in such investor losing all of its investment.

Notes which are issued with variable interest rates or which are structured to include a multiplier or other leverage factor are likely to have more volatile market values than more standard securities.

Notes with variable interest rates can be volatile investments. If they are structured to include multipliers or other leverage factors, or caps or floors, or any combination of those features or other similar related features, their market values may be even more volatile than those for securities that do not include those features.

Inverse Floating Rate Notes will have more volatile market values than conventional Floating Rate Notes.

Inverse Floating Rate Notes have an interest rate equal to a fixed rate minus a rate based upon a reference rate such as LIBOR. The market values of those Notes typically are more volatile than market values of other conventional floating rate debt securities based on the same reference rate (and with otherwise comparable terms). Inverse Floating Rate Notes are more volatile because an increase in the reference rate not only decreases the interest rate of the Notes, but may also reflect an increase in prevailing interest rates, which further adversely affects the market value of these Notes.

The Notes are not covered by the Italian Inter-Bank Fund for the Protection of Deposits.

The obligations in respect of the Notes (both Senior Notes and Subordinated Notes) are not covered by the *Fondo Interbancario di Tutela dei Depositi* (i.e. depositor insurance fund).

Risks related to Notes generally

Set out below is a description of material risks relating to the Notes generally:

The conditions of the Notes contain provisions which may permit their modification without the consent of all investors.

The Terms and Conditions of the Notes contain provisions for calling meetings of Noteholders to consider matters affecting their interests generally. These provisions permit defined majorities to bind all Noteholders including Noteholders who did not attend and vote at the relevant meeting and Noteholders who voted in a manner contrary to the majority.

Call options are subject to the prior consent of the Bank of Italy.

In addition to the call rights described under "*Regulatory classification of the Notes*" below, Subordinated Notes may also contain provisions allowing BMPS to call them after a minimum period of, for example, five years. To exercise such a call option, BMPS must obtain the prior written consent of the Bank of Italy.

Holders of such Notes have no rights to call for the redemption of such Notes and should not invest in such Notes in the expectation that such a call will be exercised by BMPS. The Bank of Italy must agree to permit such a call, based upon its evaluation of the regulatory capital position of BMPS and certain other factors at the relevant time. There can be no assurance that the Bank of Italy will permit such a call. Holders of such Notes should be aware that they may be required to bear the financial risks of an investment in such Notes for a period of time in excess of the minimum period.

The value of the Notes could be adversely affected by a change in English law or administrative practice.

Except for Conditions 2(b), the Terms and Conditions of the Notes are based on English law in effect as at the date of this Base Prospectus. No assurance can be given as to the impact of any possible judicial decision or change to English law or administrative practice after the date of this Base Prospectus and any such change could materially adversely impact the value of any Notes affected by it.

Holders of Notes held through Euroclear and Clearstream, Luxembourg must rely on procedures of those clearing systems to effect transfers of Notes, receive payments in respect of the Notes and vote at meetings of Noteholders.

Notes issued under the Programme will be represented on issue by one or more Global Notes that may be deposited with a common depositary for Euroclear and Clearstream, Luxembourg. Except in circumstances described in each Global Note, investors will not be entitled to receive Notes in definitive form. Each of Euroclear and Clearstream, Luxembourg and their respective direct and indirect participants will maintain records of the beneficial interests in each Global Note held through it. While the Notes are represented by a Global Note, investors will be able to trade their beneficial interests only through the relevant clearing systems and their respective participants.

While the Notes are represented by Global Notes, BMPS will discharge its payment obligations under the Notes by making payments through the relevant clearing systems. A holder of a beneficial interest in a Global Note must rely on the procedures of the relevant clearing systems and their participants to receive payments under the Notes. BMPS has no responsibility or liability for the records relating to, or payment made in respect of, beneficial interests in any Global Note.

Holders of beneficial interests in a Global Note will not have a direct right to vote in respect of the Notes so represented. Instead, such holders will be permitted to act only to the extent that they are enabled by the relevant clearing system and its participants to appoint appropriate proxies.

Investors who hold less than the minimum Specified Denomination may be unable to sell their Notes and may be adversely affected if definitive Notes are subsequently required to be issued..

In relation to any issue of Notes which have denominations consisting of a minimum Specified Denomination plus one or more higher integral multiples of another smaller amount, it is possible that such Notes may be traded in amounts in excess of the minimum Specified Denomination that are not integral multiples of such minimum Specified Denomination. In such a case, a holder who, as a result of trading such amounts, holds an

amount which is less than the minimum Specified Denomination in his account with the relevant ICSD would not be able to sell the remainder of such holding without first purchasing a principal amount of Notes at or in excess of the minimum Specified Denomination such that its holding amounts to a Specified Denomination. Further, a holder who, as a result of trading such amounts, holds an amount which is less than the minimum Specified Denomination in his account with the relevant ICSD at the relevant time may not receive a definitive Note in respect of such holding (should definitive Notes be printed) and would need to purchase a principal amount of Notes at or in excess of the minimum Specified Denomination such that its holding amounts to a Specified Denomination.

If such Notes in definitive form are issued, holders should be aware that definitive Notes which have a denomination that is not an integral multiple of the minimum Specified Denomination may be illiquid and difficult to trade.

Future discontinuance of LIBOR may adversely affect the value of Floating Rate Notes which reference LIBOR

On 27 July 2017, the Chief Executive of the United Kingdom Financial Conduct Authority, which regulates LIBOR, announced that it does not intend to continue to persuade, or use its powers to compel, panel banks to submit rates for the calculation of LIBOR to the administrator of LIBOR after 2021 (the "**FCA Announcement**"). The FCA Announcement indicates that the continuation of LIBOR on the current basis is not guaranteed after 2021. It is not possible to predict whether, and to what extent, panel banks will continue to provide LIBOR submissions to the administrator of LIBOR going forwards.

Investors should be aware that, if LIBOR were discontinued or otherwise unavailable, the rate of interest on Floating Rate Notes which reference LIBOR will be determined for the relevant period by the fall-back provisions applicable to such Notes. Depending on the manner in which the LIBOR rate is to be determined, this may in certain circumstances (i) be reliant upon the provision by reference banks of offered quotations for the LIBOR rate which, depending on market circumstances, may not be available at the relevant time) or (ii) result in the effective application of a fixed rate based on the rate which applied in the previous period when LIBOR was available. There is also uncertainty as to the establishment of an alternative interest rate which would apply if LIBOR were discontinued and the adequacy of any such alternative rate. Amendments to the Conditions and/or relevant fall-back provisions may be required to reflect such discontinuance and there can be no assurance that any such amendments will fully or effectively mitigate all future relevant interest rate risks. Any of the foregoing could have an adverse effect on the value or liquidity of, and return on, any Floating Rate Notes which reference LIBOR.

The regulation and reform of benchmarks may adversely affect the value of Notes referencing such benchmarks

Interest rates and indices which are deemed to be "benchmarks" (including EURIBOR and LIBOR) are the subject of recent national and international regulatory guidance and proposals for reform. Some of these reforms are already effective whilst others are still to be implemented. These reforms may cause such benchmarks to perform differently than in the past, to disappear entirely, or have other consequences which cannot be predicted. Any such consequence could have a material adverse effect on any Notes referencing such a benchmark.

Regulation (EU) 2016/1011 (the "**Benchmarks Regulation**") was published in the Official Journal of the EU on 29 June 2016 and will apply from 1 January 2018. The Benchmarks Regulation applies to the provision of benchmarks, the contribution of input data to a benchmark and the use of a benchmark within the EU. It will, among other things, (i) require benchmark administrators to be authorised or registered (or, if non-EU-based, to be subject to an equivalent regime or otherwise recognised or endorsed) and (ii) prevent certain uses by EU supervised entities (such as the Issuers) of benchmarks of administrators that are not authorised or registered (or, if non-EU based, not deemed equivalent or recognised or endorsed).

The Benchmarks Regulation could have a material impact on any Notes referencing a benchmark, in particular, if the methodology or other terms of the relevant benchmark are changed in order to comply with the requirements of the Benchmarks Regulation. Such changes could, among other things, have the effect of reducing, increasing or otherwise affecting the volatility of the published rate or level of the relevant benchmark.

More broadly, any of the international or national reforms, or the general increased regulatory scrutiny of benchmarks, could increase the costs and risks of administering or otherwise participating in the setting of a benchmark and complying with any such regulations or requirements. Such factors may have the effect,

amongst other things, of: (i) discouraging market participants from continuing to administer or contribute to a benchmark; (ii) triggering changes in the rules or methodologies used in the benchmark or (iii) leading to the disappearance of the benchmark. Any of the above changes or any other consequential changes as a result of international or national reforms or other initiatives or investigations, could have a material adverse effect on the value of and return on any Notes referencing a benchmark.

Investors should consult their own independent advisers and make their own assessment about the potential risks imposed by the Benchmarks Regulation reforms in making any investment decision with respect to any Notes referencing a benchmark.

Risks related to the market generally

Set out below is a description of material market risks, including liquidity risk, exchange rate risk, interest rate risk and credit risk:

An active secondary market in respect of the Notes may never be established or may be illiquid and this would adversely affect the value at which an investor could sell his Notes. In addition, liquidity may be limited if the Issuer makes large allocations to a limited number of investors.

Notes may have no established trading market when issued, and one may never develop. If a market does develop, it may not be very liquid and may be sensitive to changes in financial markets. Therefore, investors may not be able to sell their Notes easily or at prices that will provide them with a yield comparable to similar investments that have a developed secondary market. This is particularly the case should the Issuer be in financial distress, which may result in any sale of the Notes having to be at a substantial discount to their principal amount or for Notes that are especially sensitive to interest rate, currency or market risks, are designed for specific investment objectives or strategies or have been structured to meet the investment requirements of limited categories of investors. These types of Notes generally would have a more limited secondary market and more price volatility than conventional debt securities.

If an investor holds Notes which are not denominated in the investor's home currency, he will be exposed to movements in exchange rates adversely affecting the value of his holding. In addition, the imposition of exchange controls in relation to any Notes could result in an investor not receiving payments on those Notes.

BMPS will pay principal and interest on the Notes in the Specified Currency. This presents certain risks relating to currency conversions if an investor's financial activities are denominated principally in a currency or currency unit (the "**Investor's Currency**") other than the Specified Currency. These include the risk that exchange rates may significantly change (including changes due to devaluation of the Specified Currency or revaluation of the Investor's Currency) and the risk that authorities with jurisdiction over the Investor's Currency may impose or modify exchange controls. An appreciation in the value of the Investor's Currency relative to the Specified Currency would decrease (1) the Investor's Currency-equivalent yield on the Notes, (2) the Investor's Currency equivalent value of the principal payable on the Notes and (3) the Investor's Currency equivalent market value of the Notes.

Government and monetary authorities may impose (as some have done in the past) exchange controls that could adversely affect an applicable exchange rate or the ability of the Issuer to make payments in respect of the Notes. As a result, investors may receive less interest or principal than expected, or no interest or principal.

The value of Fixed Rate Notes may be adversely affected by movements in market interest rates.

Investment in Fixed Rate Notes involves the risk that if market interest rates subsequently increase above the rate paid on the Fixed Rate Notes, this will adversely affect the value of the Fixed Rate Notes.

Credit ratings assigned to BMPS or any Notes may not reflect all the risks associated with an investment in those Notes.

One or more independent credit rating agencies may assign credit ratings to BMPS or the Notes. The ratings may not reflect the potential impact of all risks related to structure, market, additional factors discussed above, and other factors that may affect the value of the Notes. A credit rating is not a recommendation to buy, sell or hold securities and may be revised, suspended or withdrawn by the rating agency at any time.

In general, European regulated investors are restricted under the CRA Regulation from using credit ratings for regulatory purposes, unless such ratings are issued by a credit rating agency established in the EU and registered under the CRA Regulation (and such registration has not been withdrawn or suspended, subject to transitional provisions that apply in certain circumstances). Such general restriction will also apply in the case of credit ratings issued by non-EU credit rating agencies, unless the relevant credit ratings are endorsed by an

EU-registered credit rating agency or the relevant non-EU rating agency is certified in accordance with the CRA Regulation (and such endorsement action or certification, as the case may be, has not been withdrawn or suspended, subject to transitional provisions that apply in certain circumstances). The list of registered and certified rating agencies published by the European Securities and Markets Authority ("**ESMA**") on its website in accordance with the CRA Regulation is not conclusive evidence of the status of the relevant rating agency included in such list, as there may be delays between certain supervisory measures being taken against a relevant rating agency and the publication of the updated ESMA list. Certain information with respect to the credit rating agencies and ratings is set out on the cover of this Base Prospectus.

Legal investment considerations may restrict certain investments

The investment activities of certain investors are subject to legal investment laws and regulations, or review or regulation by certain authorities. Each potential investor should consult its legal advisers to determine whether and to what extent (i) Notes are legal investments for it, (ii) Notes can be used as collateral for various types of borrowing and (iii) other restrictions apply to its purchase or pledge of any Notes. Financial institutions should consult their legal advisers or the appropriate regulators to determine the appropriate treatment of Notes under any applicable risk-based capital or similar rules.

DOCUMENTS INCORPORATED BY REFERENCE

The following documents which have been previously published or are published simultaneously with this Base Prospectus and have been filed with the CSSF shall be incorporated by reference in, and form part of, this Base Prospectus:

(a) the consolidated audited annual financial statements of BMPS for each of the financial years ended 31 December 2016 and 31 December 2015, contained in the 2016 Consolidated Financial Statements and the 2015 audited consolidated annual report respectively (see cross-reference table below);

(b) the consolidated unaudited first half financial report of BMPS as at 30 June 2017; and

(c) the consolidated unaudited interim financial report of BMPS as at 30 September 2017.

Cross-reference table

Please find below the relevant page references in respect of each of the following financial statements:

Document	Information incorporated by reference	Location
BMPS' Audited Consolidated Annual Financial Statements for the Financial Year Ended 31 December 2015	Governing and Control Bodies	pp 5
	Consolidated Report on Operations	pp 7-94
	Consolidated balance sheet	pp 97-98
	Consolidated income statement	pp 99-100
	Consolidated statement of comprehensive income	pp 101
	Consolidated Statement of Changes in Equity - 2015	pp 102-103
	Consolidated Statement of Changes in Equity - 2014	pp 104-105
	Consolidated cash flow statement: indirect method	pp 106-108
	Notes to the Consolidated Financial Statements	pp 109-110
	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	p 478
	Independent Auditor's Report	pp 479-482
BMPS' Audited Consolidated Annual Financial Statements for the Financial Year Ended 31 December 2016	Governing and Control Bodies	pp 5
	Consolidated Report on Operations	pp 7-96
	Consolidated balance sheet	pp 99-100
	Consolidated income statement	pp 101-102
	Consolidated statement of comprehensive income	pp. 103
	Consolidated Statement of Changes in Equity – 2016	pp. 104-105
	Consolidated Statement of Changes in Equity – 2015	pp 106-108
	Consolidated cash flow statement: indirect method	pp 108-110
	Notes to the Consolidated Financial Statements	pp 111-466
	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	p 467
	Independent Auditor's Report	pp 469-472

Document	Information incorporated by reference	Location
BMPS' Unaudited Consolidated First Half Financial Report as at 30 June 2017	Consolidated balance sheet	pp 21-22
	Consolidated income statement	p. 23
	Consolidated statement of comprehensive income	p. 24
	Consolidated Statement of Changes in Equity – 30 June 2017	pp. 25-26
	Consolidated Statement of Changes in Equity – 30 June 2016	pp. 27-28
	Consolidated cash flow statement: indirect method	pp. 29-30
	Consolidated report on operations	pp. 3-19
	Notes to the interim report of operations	pp. 31-102
	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	p. 109
	Independent Auditor's Review Report	pp. 111-112
BMPS' Unaudited Consolidated Interim Financial Report as at 30 September 2017	Consolidated balance sheet	pp. 23-24
	Consolidated income statement	p. 25
	Consolidated statement of comprehensive income	p. 26
	Consolidated Statement of Changes in Equity – 30 September 2017	pp. 27-28
	Consolidated Statement of Changes in Equity – 30 September 2016	pp. 29-30
	Consolidated cash flow statement: indirect method	pp. 31-32
	Consolidated reports on operations	pp. 3-20
	Notes to the interim reports of operations	pp. 33-111
	Independent Auditor's Review Report	pp. 122-123

Following the publication of this Base Prospectus a supplement may be prepared by BMPS and approved by the CSSF in accordance with Article 16 of the Prospectus Directive. Statements contained in any such supplement (or contained in any document incorporated by reference therein) shall, to the extent applicable, be deemed to modify or supersede statements contained in this Base Prospectus or in a document which is incorporated by reference in this Base Prospectus. Any statement so modified or superseded shall not, except as so modified or superseded, constitute a part of this Base Prospectus.

Copies of documents incorporated by reference in this Base Prospectus can be obtained from the office of BMPS as set out at the end of this Base Prospectus and will also be published on the BMPS website (*https://www.gruppomps.it/en/investor-relations/financial-results/financial-results.html*). In addition, such documents will be available free of charge from the principal office in Luxembourg of Banque Internationale à Luxembourg, société anonyme (the "Luxembourg Listing Agent") for Notes admitted to the Official List and to trading on the Luxembourg Stock Exchange's regulated market. This Base Prospectus and the documents incorporated by reference herein have been filed with the Luxembourg Stock Exchange and will also be published on the Luxembourg Stock Exchange's website (www.bourse.lu). The information incorporated by reference that is not included in the cross-reference list, is considered as additional information and is not required by the relevant schedules of the Commission Regulation (EC) No 809/2004 implementing the Prospectus Directive (the "**Prospectus Regulation**").

Any websites included in the Base Prospectus are for the information purposes only and do not form part of the Base Prospectus.

The Issuer will, in the event of any significant new factor, material mistake or inaccuracy relating to information included in this Base Prospectus, prepare a supplement to this Base Prospectus or publish a new Base Prospectus for use in connection with any subsequent issue of the Notes to be listed on the Luxembourg Stock Exchange.

GENERAL DESCRIPTION OF THE PROGRAMME

The following overview does not purport to be complete and is taken from, and is qualified in its entirety by, the remainder of this Base Prospectus and, in relation to the terms and conditions of any particular Tranche of Notes, the Form of Final Terms (or, in the case of Exempt Notes, the applicable Pricing Supplement). The Issuer and any relevant Dealer may agree that Notes shall be issued in a form other than that contemplated in the Terms and Conditions, in which event, in the case of Notes other than Exempt Notes and, if appropriate, a supplement to the Base Prospectus or a new Base Prospectus will be published.

This section constitutes a general description of the Programme for the purposes of Article 22.5(3) of the Prospectus Regulation.

Words and expressions defined in "Form of the Notes" and "Terms and Conditions of the Notes" below shall have the same meanings in this overview.

Issuer:	Banca Monte dei Paschi di Siena S.p.A. (the "**Issuer**" or "**BMPS**")
Description:	Debt Issuance Programme
Arranger:	The Royal Bank of Scotland plc (trading as NatWest Markets)
Dealers:	Barclays Bank PLC Citigroup Global Markets Limited Crédit Agricole Corporate and Investment Bank Credit Suisse Securities (Europe) Limited Deutsche Bank AG, London Branch Goldman Sachs International HSBC Bank plc J.P. Morgan Securities plc Mediobanca – Banca di Credito Finanziario S.p.A. Merrill Lynch International Morgan Stanley & Co. International plc MPS Capital Services Banca per le Imprese S.p.A. Société Générale The Royal Bank of Scotland plc (trading as NatWest Markets) UBS Limited and any other Dealers appointed in accordance with the Programme Agreement (as defined under "*Subscription and Sale*").
Certain Restrictions:	Each issue of Notes denominated in a currency in respect of which particular laws, guidelines, regulations, restrictions or reporting requirements apply will only be issued in circumstances which comply with such laws, guidelines, regulations, restrictions or reporting requirements from time to time (see "*Subscription and Sale*"), including the following restrictions applicable at the date of this Prospectus.
Issuing and Principal Paying Agent:	Citibank, N.A., London Branch
Programme Size:	Up to €50,000,000,000 (or its equivalent in other currencies calculated as described in the Programme Agreement) outstanding at any time. The Issuer may increase the amount of the Programme in accordance with the terms of the Programme Agreement.

Distribution:	Notes may be distributed by way of private or public placement and in each case on a syndicated or non-syndicated basis.
Currencies:	Subject to any applicable legal or regulatory restrictions, any currency agreed between the Issuer and the relevant Dealer.
Maturities:	The Notes will have such maturities as may be agreed between the Issuer and the relevant Dealer, subject to such minimum or maximum maturities as may be allowed or required from time to time by the relevant central bank (or equivalent body) or any laws or regulations applicable to the Issuer or the relevant Specified Currency. Unless otherwise permitted by current laws, regulations, directives and/or the Bank of Italy's requirements applicable from time to time to the issue of Subordinated Notes, Subordinated Notes must have a minimum maturity of 5 years.
Issue Price:	Notes may be issued on a fully-paid or, in the case of Exempt Notes, a partly-paid basis and at an issue price which is at par or at a discount to, or premium over, par.
Form of Notes:	The Notes will be issued in bearer form as described in "Form of the Notes".
Fixed Rate Notes:	Fixed interest will be payable on such date or dates as may be agreed between the Issuer and the relevant Dealer and on redemption, and will be calculated on the basis of such Day Count Fraction as may be agreed between the Issuer and the relevant Dealer.
Reset Notes:	Reset Notes will, in respect of an initial period, bear interest at the initial fixed rate of interest specified in the relevant Final Terms. Thereafter, the fixed rate of interest will be reset on one or more date(s) specified in the relevant Final Terms by reference to a mid-market swap rate, as adjusted for any applicable margin, in each case, as may be specified in the relevant Final Terms.
Floating Rate Notes:	Floating Rate Notes will bear interest at a rate determined: (i) on the same basis as the floating rate under a notional interest rate swap transaction in the relevant Specified Currency governed by an agreement incorporating the 2006 ISDA Definitions, as published by the International Swaps and Derivatives Association, Inc., and as amended and updated as at the Issue Date of the first Tranche of the Notes of the relevant Series; or (ii) on the basis of the reference rate set out in the Form of Final Terms (or, in the case of Exempt Notes, Pricing Supplement). The margin (if any) relating to such floating rate will be agreed between the Issuer and the relevant Dealer for each Series of Floating Rate Notes. Floating Rate Notes may also have a maximum interest rate, a minimum interest rate or both. Interest on Floating Rate Notes in respect of each Interest Period, as agreed

	prior to issue by the Issuer and the relevant Dealer, will be payable on such Interest Payment Dates, and will be calculated on the basis of such Day Count Fraction, as may be agreed between the Issuer and the relevant Dealer.
Zero Coupon Notes:	Zero Coupon Notes will be offered and sold at a discount to their nominal amount and will not bear interest.
Exempt Notes:	The Issuer may issue Exempt Notes which are Partly Paid Notes or Notes redeemable in one or more instalments. ***Partly Paid Notes***: The Issuer may issue Notes in respect of which the issue price is paid in separate instalments in such amounts and on such dates as the Issuer and the relevant Dealer may agree. ***Notes redeemable in instalments***: The Issuer may issue Notes which may be redeemed in separate instalments in such amounts and on such dates as the Issuer and the relevant Dealer may agree. The Issuer may agree with any Dealer that Exempt Notes may be issued in a form not contemplated by the Terms and Conditions of the Notes, in which event the relevant provisions will be included in the applicable Pricing Supplement.
Redemption:	The Form of Final Terms (or, in the case of Exempt Notes, the applicable Pricing Supplement) will indicate either that the relevant Notes cannot be redeemed prior to their stated maturity (other than in the case of Exempt Notes in specified instalments, if applicable, or for taxation reasons or following an Event of Default) or that such Notes will be redeemable at the option of the Issuer. The terms of any such redemption, including notice periods, any relevant conditions to be satisfied and the relevant redemption dates and prices will be indicated in the Form of Final Terms. Other than following an Event of Default, any redemption of Senior Notes or Subordinated Notes prior to their stated maturity in accordance with the Conditions (including early redemption for taxation reasons or early redemption for regulatory reasons) will be subject to the provisions of, respectively, Condition 5(i) and 5(h). Notes having a maturity of less than one year are subject to restrictions on their denomination and distribution, see "*Certain Restrictions*".
Denomination of Notes:	Notes will be issued in such denominations as may be agreed between the Issuer and the relevant Dealer save that the minimum denomination of each Note will be such as may be allowed or required from time to time by the relevant central bank (or equivalent body) or any laws or regulations applicable to the relevant Specified Currency, save that the minimum denomination of each Note (other than an Exempt Note) issued by the Issuer that is admitted to trading on a regulated market within the European Economic Area or offered to the public in a Member State of the European Economic Area in circumstances which require the publication of a prospectus under the Prospectus Directive, will be €100,000 (or, if the Notes are denominated in a currency other than euro, the equivalent amount in such currency).
Taxation:	All payments in respect of the Notes will be made without deduction for or

	on account of withholding taxes imposed by any Tax Jurisdiction, subject as provided in Condition 6 (*Taxation*). In the event that any such deduction is made, the Issuer will, save in certain limited circumstances provided in Condition 6 (*Taxation*), be required to pay additional amounts, in respect of principal and interest in the case of Senior Notes, or interest only in the case of Subordinated Notes, to cover the amounts so deducted. As more fully set out in Condition 6 (*Taxation*), BMPS in its capacity as Issuer shall not be liable in certain circumstances to pay any additional amounts to holders of the Notes with respect to any Notes, Receipts or Coupons for or on account of *imposta sostitutiva* pursuant to Italian Legislative Decree No. 239 of 1 April 1996 (as amended or supplemented) and related regulations of implementation which have been or may subsequently be enacted ("**Legislative Decree 239**").
Negative Pledge:	None.
Status of the Notes:	The Senior Notes will constitute direct, unconditional, unsubordinated and unsecured obligations of the Issuer and will rank (subject to any obligations preferred by any applicable law, including any obligations permitted by law to rank, and expressed to rank, senior to the Senior Notes, on or following the Issue Date) *pari passu* with all other unsecured obligations (other than obligations ranking junior to the Senior Notes from time to time (including any obligations permitted by law to rank, and expressed to rank, junior to the Senior Notes, on or following the Issue Date), if any) of the Issuer, present and future and *pari passu* and rateably without any preference among themselves. The Subordinated Notes will constitute unconditional, subordinated unsecured obligations of the Issuer and, (subject to Condition 2(b)), will rank *pari passu* and without any preference among themselves and after all unsubordinated, unsecured obligations of the Issuer, as described in Condition 2(b).
Subordination:	Payments in respect of the Subordinated Notes will be subordinated as described in Condition 2 (*Status of the Notes and Subordination*).
Approval, listing and admission to trading:	Application has been made to the CSSF to approve this document as a base prospectus. Application has also been made for Notes (other than Exempt Notes) issued under the Programme to be admitted to trading on the Luxembourg Stock Exchange's regulated market and to be listed on the Official List of Luxembourg Stock Exchange. The Notes may also be listed or admitted to trading, as the case may be, on such other or further stock exchanges or markets as may be agreed between the Issuer and the relevant Dealer in relation to each Series. Notes which are neither listed nor admitted to trading on any market may also be issued. The Form of Final Terms (or applicable Pricing Supplement, the case of Exempt Notes) will state whether or not the relevant Notes are to be listed and/or admitted to trading and, if so, on which stock exchanges and/or markets.
Rating:	The Programme has been rated (P)B3 by Moody's Investors Service Ltd ("**Moody's**"), B by Fitch Ratings Limited ("**Fitch**") and B (high) by DBRS

	Ratings Limited ("**DBRS**"). Each of Moody's, Fitch and DBRS is established in the EU and registered under the CRA Regulation. Series of Notes issued under the Programme may be rated or unrated. The rating of certain Series of Notes to be issued under the Programme may be specified in the Form of Final Terms. Whether or not each credit rating applied for in relation to relevant Series of Notes will be issued by a credit rating agency established in the European Union and registered under Regulation (EC) No 1060/2009 (as amended) (the "**CRA Regulation**") will be disclosed in the Final Terms. Such credit rating agency is included in the list of credit rating agencies published by the European Securities and Markets Authority on its website (at *http://www.esma.europa.eu/page/List-registered-and-certified-CRAs*) in accordance with the CRA Regulation. Please also refer to "*Ratings of the Notes*" in the "*Risk Factors*" section of this Base Prospectus.
Governing Law:	The Notes and any non-contractual obligations arising out of or in connection with the Notes will be governed by, and construed in accordance with, English law, except Condition 2(b) which shall be governed by, and construed in accordance with, Italian law.
Selling Restrictions:	There are restrictions on the offer, sale and transfer of the Notes in the United States, the European Economic Area (including the United Kingdom and Italy) and Japan and such other restrictions as may be required in connection with the offering and sale of a particular Tranche of Notes, see "*Subscription and Sale*".

FORM OF THE NOTES

Any reference in this section to "Form of Final Terms" shall be deemed to include a reference to "applicable Pricing Supplement" where relevant.

Each Tranche of Notes will be in bearer form and will initially be issued in the form of a temporary global note (a "**Temporary Global Note**") or, if so specified in the Form of Final Terms, a permanent global note (a "**Permanent Global Note**") which, in either case, will:

(i) if the Global Notes are intended to be issued in new global note ("**NGN**") form, as stated in the Form of Final Terms, be delivered on or prior to the original issue date of the Tranche to a common safekeeper (the "**Common Safekeeper**") for Euroclear Bank SA/NV ("**Euroclear**") and Clearstream Banking, *société anonyme* ("**Clearstream, Luxembourg**"); and

(ii) if the Global Notes are not intended to be issued in NGN Form, be delivered on or prior to the original issue date of the Tranche to a common depositary (the "**Common Depositary**") for Euroclear and Clearstream, Luxembourg.

Where the Global Notes issued in respect of any Tranche are in NGN form, the Form of Final Terms will also indicate whether such Global Notes are intended to be held in a manner which would allow Eurosystem eligibility. Any indication that the Global Notes are to be so held does not necessarily mean that the Notes of the relevant Tranche will be recognised as eligible collateral for Eurosystem monetary policy and intra-day credit operations by the Eurosystem either upon issue or at any times during their life as such recognition depends upon satisfaction of the Eurosystem eligibility criteria. The Common Safekeeper for NGNs will either be Euroclear or Clearstream, Luxembourg or another entity approved by Euroclear and Clearstream, Luxembourg, as indicated in the Form of Final Terms.

Whilst any Note is represented by a Temporary Global Note, payments of principal, interest (if any) and any other amount payable in respect of the Notes due prior to the Exchange Date (as defined below) will be made (against presentation of the Temporary Global Note if the Temporary Global Note is not intended to be issued in NGN form) only to the extent that certification (in a form to be provided) to the effect that the beneficial owners of interests in such Note are not U.S. persons or persons who have purchased for resale to any U.S. person, as required by U.S. Treasury regulations, has been received by Euroclear and/or Clearstream, Luxembourg and Euroclear and/or Clearstream, Luxembourg, as applicable, has given a like certification (based on the certifications it has received) to the Agent.

On and after the date (the "**Exchange Date**") which is 40 days after the Temporary Global Note is issued, interests in such Temporary Global Note will be exchangeable (free of charge) upon a request as described therein either for (i) interests in a Permanent Global Note of the same Series or (ii) definitive Notes of the same Series with, where applicable, receipts, interest coupons and talons attached (as indicated in the Form of Final Terms and subject, in the case of definitive Notes, to such notice period as is specified in the Form of Final Terms), in each case against certification of beneficial ownership as described above unless such certification has already been given. The holder of a Temporary Global Note will not be entitled to collect any payment of interest, principal or other amount due on or after the Exchange Date unless, upon due certification, exchange of the Temporary Global Note for an interest in a Permanent Global Note or for definitive Notes is improperly withheld or refused.

Payments of principal, interest (if any) or any other amounts on a Permanent Global Note will be made through Euroclear and/or Clearstream, Luxembourg (against presentation or surrender (as the case may be) of the Permanent Global Note if the Permanent Global Note is not intended to be issued in NGN form) without any requirement for certification.

The Form of Final Terms will specify that a Permanent Global Note will be exchangeable (free of charge), in whole but not in part, for definitive Notes with, where applicable, receipts, interest coupons and talons attached upon the occurrence of an Exchange Event. For these purposes, "Exchange Event" means that (i) an Event of Default (as defined in Condition 8 (*Events of Default*)) has occurred and is continuing, (ii) the Issuer has been notified that both Euroclear and Clearstream, Luxembourg have been closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or have announced an intention permanently to cease business or have in fact done so and no successor clearing system is available or (iii) the Issuer has or will become subject to adverse tax consequences which would not be suffered were the Notes represented by the Permanent Global Note in definitive form. The Issuer will promptly give notice

to Noteholders in accordance with Condition 12 (*Notices*) if an Exchange Event occurs. In the event of the occurrence of an Exchange Event, Euroclear and/or Clearstream, Luxembourg (acting on the instructions of any holder of an interest in such Permanent Global Note) may give notice to the Agent requesting exchange and, in the event of the occurrence of an Exchange Event as described in (iii) above, the Issuer may also give notice to the Agent requesting exchange. Any such exchange shall occur not later than 45 days after the date of receipt of the first relevant notice by the Agent.

The following legend will appear on all Notes (other than Temporary Global Notes), receipts and interest coupons relating to such Notes where TEFRA D is specified in the Form of Final Terms or Pricing Supplement, as the case may be:

"ANY UNITED STATES PERSON WHO HOLDS THIS OBLIGATION WILL BE SUBJECT TO LIMITATIONS UNDER THE UNITED STATES INCOME TAX LAWS, INCLUDING THE LIMITATIONS PROVIDED IN SECTIONS 165(j) AND 1287(a) OF THE INTERNAL REVENUE CODE."

The sections referred to provide that United States holders, with certain exceptions, will not be entitled to deduct any loss on Notes, receipts or interest coupons and will not be entitled to capital gains treatment in respect of any gain on any sale, disposition, redemption or payment of principal in respect of such Notes, receipts or interest coupons.

Notes which are represented by a Global Note will only be transferable in accordance with the rules and procedures for the time being of Euroclear or Clearstream, Luxembourg, as the case may be.

Pursuant to the Agency Agreement (as defined under "*Terms and Conditions of the Notes*"), the Agent shall arrange that, where a further Tranche of Notes is issued which is intended to form a single Series with an existing Tranche of Notes at a point after the Issue Date of the further Tranche, the Notes of such further Tranche shall be assigned a common code and ISIN which are different from the common code and ISIN assigned to Notes of any other Tranche of the same Series until such time as the Tranches are consolidated and form a single Series, which shall not be prior to the expiry of the distribution compliance period (as defined in Regulation S under the Securities Act) applicable to the Notes of such Tranche.

Any reference herein to Euroclear and/or Clearstream, Luxembourg shall, whenever the context so permits, be deemed to include a reference to any additional or alternative clearing system specified in the Form of Final Terms.

A Note may be accelerated by the holder thereof in certain circumstances described in Condition 8 (*Events of Default*). In such circumstances, where any Note is still represented by a Global Note and the Global Note (or any part thereof) has become due and repayable in accordance with the Terms and Conditions of such Notes and payment in full of the amount due has not been made in accordance with the provisions of the Global Note, then the Global Note will become void at 8.00 p.m. (London time) on such day. At the same time, holders of interests in such Global Note credited to their accounts with Euroclear and/or Clearstream, Luxembourg, as the case may be, will become entitled to proceed directly against the Issuer on the basis of statements of account provided by Euroclear and/or Clearstream, Luxembourg on and subject to the terms of a deed of covenant (the "**Deed of Covenant**") dated 15 December 2017 executed by the Issuer.

The Issuer may agree with any Dealer that Notes may be issued in a form not contemplated by the Terms and Conditions of the Notes, in which event, other than where such Notes are Exempt Notes, a new Base Prospectus will be made available which will describe the effect of the agreement reached in relation to such Notes.

FORM OF FINAL TERMS

[PROHIBITION OF SALES TO EEA RETAIL INVESTORS – The Notes[, from 1 January 2018,][7] are not intended to be offered, sold or otherwise made available to and[, with effect from such date,] should not be offered, sold or otherwise made available to any retail investor in the European Economic Area ("**EEA**"). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU ("**MiFID II**"); (ii) a customer within the meaning of Directive 2002/92/EC ("**IMD**"), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or (iii) not a qualified investor as defined in Directive 2003/71/EC (as amended, the "**Prospectus Directive**"). Consequently no key information document required by Regulation (EU) No 1286/2014 (the "**PRIIPs Regulation**") for offering or selling the Notes or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.][8]

Set out below is the form of Final Terms which will be completed for each Tranche of Notes which are not Exempt Notes and which have a denomination of €100,000 (or its equivalent in any other currency) or more issued under the Programme.

[Date]

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

Issue of [Aggregate Nominal Amount of Tranche] [Title of Notes]

under the €50,000,000,000

Debt Issuance Programme

PART A – CONTRACTUAL TERMS

Terms used herein shall be deemed to be defined as such for the purposes of the Conditions set forth in the Base Prospectus dated 15 December 2017 [and the supplement[s] to it dated [*date*] [and [*date*]] which [together] constitute[s] a base prospectus for the purposes of the Prospectus Directive (the "**Base Prospectus**"). This document constitutes the Final Terms of the Notes described herein for the purposes of Article 5.4 of the Prospectus Directive and must be read in conjunction with the Base Prospectus. Full information on the Issuer and the offer of the Notes is only available on the basis of the combination of these Final Terms and the Base Prospectus. The Base Prospectus is available for viewing at the registered office of the Issuer and has been published on the website of the Luxembourg Stock Exchange (www.bourse.lu) and copies may be obtained from the Agent at Citigroup Centre, Canada Square, Canary Wharf, London E14 5LB.

[Include whichever of the following apply or specify as "Not Applicable" (N/A). Note that the numbering should remain as set out below, even if "Not Applicable" is indicated for individual paragraphs or subparagraphs (in which case the sub-paragraphs of the paragraphs which are not applicable can be deleted). Italics denote directions for completing the Final Terms.]

(1)	(i)	Series Number:	[ ]
	(ii)	Tranche	[ ]
	(iii)	Date on which the Notes will be consolidated and form a single Series:	The Notes will be consolidated and form a single Series with [*Provide issue amount/ISIN/maturity date/issue date of earlier Tranches*] on [the Issue Date/exchange of the Temporary Global Note for interests in the Permanent Global

[7] This date reference should not be included in Final Terms for offers concluded on or after 1 January 2018.

[8] Legend to be included on front of the Final Terms (i) for offers concluded on or after 1 January 2018 if the Notes potentially constitute "packaged" products or the issuer wishes to prohibit offers to EEA retail investors for any other reason, in which case the selling restriction should be specified to be "Applicable" (ii) for offers concluded before 1 January 2018 at the option of the parties.

Note, as referred to in paragraph (23) below, which is expected to occur on or about [*date*]][Not Applicable]

(2)	Specified Currency or Currencies:		[ ]
(3)	Aggregate Nominal Amount:		
	(i)	Series:	[ ]
	(ii)	Tranche:	[ ]
(4)	Issue Price of Tranche:		[ ] per cent. of the Aggregate Nominal Amount [plus accrued interest from [insert date] (*in the case of fungible issues only, if applicable*)]
(5)	(i)	Specified Denominations:	[ ] (*N.B. Notes must have a minimum denomination of EUR 100,000 (or equivalent)*) (*Note – where multiple denominations above [€100,000] or equivalent are being used the following sample wording should be followed*: *"[€100,000] and integral multiples of [€1,000] in excess thereof up to and including [€199,000]. No Notes in definitive form will be issued with a denomination above [€199,000]."*)
	(ii)	Calculation Amount:	[ ] (*If only one Specified Denomination, insert the Specified Denomination.* *If more than one Specified Denomination, insert the highest common factor. Note: There must be a common factor in the case of two or more Specified Denominations.*)
(6)	(i)	Issue Date:	[ ]
	(ii)	Interest Commencement Date:	[ ]
(7)	Maturity Date:		[*Specify date or for Floating rate notes* - Interest Payment Date falling in or nearest to [*specify month and year*]] (*Unless otherwise permitted by current laws, regulations, directives and/or the Bank of Italy's requirements applicable to the issue of Subordinated Notes by BMPS Subordinated Notes must have a minimum maturity of five years*).
(8)	Interest Basis:		[ ]] per cent. Fixed Rate] [[ ] per cent. to be reset on [ ] [and [ ]] and every [ ] anniversary thereafter] [[[ ] month [LIBOR/EURIBOR] +/- [ ] per cent. Floating Rate]

			[Zero Coupon] (see paragraph [(13)]/[(14)]/[(15)]/[(16)] below)
(9)	Redemption/Payment Basis:		[100 per cent.] [[●] in case of Zero Coupon Notes]
(10)	Change of Interest Basis:		[*Specify the date when any fixed to floating rate change occurs or cross refer to paragraphs (13) and (16) and identify there*][Not Applicable]
(11)	Put/Call Options:		[Regulatory Call] [Issuer Call] [Issuer Call due to MREL Disqualification Event] [(see paragraph [(18)]/[(19)]/[(20)] below)]
(12)	(i)	Status of the Notes:	[Senior Notes/Subordinated Notes]
	(ii)	Date of [Board] approval for issuance of Notes obtained:	[ ] (*N.B. Only required where Board (or similar) authorisation is required for the particular tranche of Notes*)

PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE

(13)	Fixed Rate Note Provisions:		[Applicable/Not Applicable] (*If not applicable, delete the remaining sub-paragraphs of this paragraph*)
	(i)	Rate(s) of Interest for Fixed Rate Notes:	[ ] per cent. per annum payable in arrear on each Interest Payment Date
	(ii)	Interest Payment Date(s):	[ ] in each year up to and including the Maturity Date (*Amend appropriately in the case of a irregular coupons*)
	(iii)	Fixed Coupon Amount(s): (Applicable to Notes in definitive form)	[ ] per Calculation Amount
	(iv)	Broken Amount(s): (Applicable to Notes in definitive form)	[[ ] per Calculation Amount, payable on the Interest Payment Date falling [in/on] [ ]][Not Applicable]
	(v)	Day Count Fraction:	[30/360] [Actual/Actual (ICMA)]
	(vi)	Determination Date(s):	[[ ] in each year] [Not Applicable] (*Only relevant where Day Count Fraction is Actual/Actual (ICMA). In such a case, insert regular interest payment dates, ignoring issue date or maturity date in the case of a long or short first or last coupon.*)
(14)	Reset Note Provisions:		[Applicable/Not Applicable]
	(a)	Initial Rate of Interest:	[ ] per cent. per annum payable in arrear [on each Interest Payment Date]
	(b)	First Margin:	[+/-][ ] per cent. per annum
	(c)	Subsequent Margin:	[[+/-][ ] per cent. per annum] [Not Applicable]

(d)	Interest Payment Date(s):	[ ] [and [ ]] in each year up to and including the Maturity Date [until and excluding [ ]]
(e)	Fixed Coupon Amount up to (but excluding) the First Reset Date:	[[ ] per Calculation Amount][Not Applicable]
(f)	Broken Amount(s):	[[ ] per Calculation Amount payable on the Interest Payment Date falling [in/on] [ ]][Not Applicable]
(g)	First Reset Date:	[ ]
(h)	Second Reset Date:	[ ]/[Not Applicable]
(i)	Subsequent Reset Date(s):	[ ] [and [ ]]
(j)	Relevant Screen Page:	[●]/[Not Applicable]
(k)	Mid-Swap Rate:	[Single Mid-Swap Rate/Mean Mid-Swap Rate]
(l)	Mid-Swap Maturity	[ ]
(m)	Day Count Fraction:	[Actual/Actual / Actual/Actual (ISDA)] [Actual/365 (Fixed)] [Actual/365 (Sterling)] [Actual/360] [30/360/360/360/Bond Basis] [30E/360/Eurobond Basis] [30E/360 (ISDA)] [Actual/Actual ICMA]
(n)	Determination Dates:	[ ] in each year
(o)	Business Centre(s):	[ ]
(p)	Calculation Agent:	[the Agent] / [ ]

(15) Floating Rate Note Provisions: [Applicable/Not Applicable]
(*If not applicable, delete the remaining sub-paragraphs of this paragraph*)

(i)	Specified Period(s)/Specified Interest Payment Dates:	[ ][, subject to adjustment in accordance with the Business Day Convention set out in ((ii) below /, not subject to adjustment, as the Business Day Convention in (b) below is specified to be Not Applicable]
(ii)	Business Day Convention:	[Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention][Not Applicable]
(iii)	Additional Business Centre(s):	[*insert name and address*]

(iv)	Manner in which the Rate of Interest and Interest Amount is to be determined:	[Screen Rate Determination/ISDA Determination]
(v)	Party responsible for calculating the Rate of Interest and Interest Amount (if not the Agent):	[ ]
(vi)	Screen Rate Determination:	[Applicable/Not Applicable]
	• Reference Rate:	[ ] month [LIBOR/EURIBOR].
	• Interest Determination Date(s):	[ ] (*Second London business day prior to the start of each Interest Period if LIBOR (other than sterling or euro LIBOR), first day of each Interest Period if sterling LIBOR and the second day on which the TARGET2 System is open prior to the start of each Interest Period if EURIBOR or euro LIBOR*)
	• Relevant Screen Page:	[ ] (*In the case of EURIBOR, if not Reuters EURIBOR01 ensure it is a page which shows a composite rate or amend the fallback provisions appropriately*)
(vii)	ISDA Determination	[Applicable/Not Applicable]
	• Floating Rate Option:	[ ]
	• Designated Maturity:	[ ]
	• Reset Date:	[ ] (*In the case of a LIBOR or EURIBOR based option, the first day of the Interest Period*)
(viii)	Linear Interpolation:	[Not Applicable/Applicable - the Rate of interest for the [long/short] [first/last] Interest Period shall be calculated using Linear Interpolation (specify for each short or long interest period)]
(ix)	Margin(s):	[+/-] [ ] per cent. per annum
(x)	Minimum Rate of Interest:	[ ] per cent. per annum
(xi)	Maximum Rate of Interest:	[ ] per cent. per annum
(xii)	Day Count Fraction:	[Actual/Actual (ISDA)][Actual/Actual] Actual/365 (Fixed) Actual/365 (Sterling) Actual/360 [30/360][360/360][Bond Basis]

[30E/360][Eurobond Basis]
30E/360 (ISDA)]

(16)	Zero Coupon Note Provisions:	[Applicable/Not Applicable] (*If not applicable, delete the remaining sub-paragraphs of this paragraph*)
(i)	Accrual Yield:	[ ] per cent. per annum
(ii)	Reference: Price:	[ ]
(iii)	Day Count Fraction in relation to Early Redemption Amounts:	[30/360] [Actual/365]

PROVISIONS RELATING TO REDEMPTION

(17)	Notice periods for Condition 5:	Minimum period: [ ] days Maximum period: [ ] days (*N.B. When setting notice, the Issuer is advised to consider the practicalities of distribution of information through intermediaries, for example, clearing systems (which require a minimum of 5 clearing system business days' notice for a call) and custodians, as well as any other notice requirements which may apply, for example, as between the Issuer and the Agent*)
(18)	Issuer Call:	[Applicable/Not Applicable] (*If not applicable, delete the remaining sub-paragraphs of this paragraph*)
(i)	Optional Redemption Date(s):	[ ] *(If the Notes are Subordinated Notes, unless otherwise permitted by current laws, regulations, directives and/or the Bank of Italy's requirements, applicable to the issue of Subordinated Notes, the Optional Redemption Date shall not be earlier than five years after the Issue Date.)*
(ii)	Optional Redemption Amount: amount(s):	[[ ] per Calculation Amount]
(iii)	If redeemable in part:	
(a)	Minimum Redemption Amount:	[ ]
(b)	Maximum Redemption Amount:	[ ]
(19)	Regulatory Call:	[Applicable/Not Applicable] (*If not applicable, delete the remaining sub-paragraphs of this paragraph.*) (*N.B. Only relevant in the case of Subordinated Notes*)

	(i) Early Redemption Amount of each Note payable on redemption for regulatory reasons as contemplated by Condition 5(d) and/or the method of calculating the same (if required or if different from that set out in Condition 5(f)):	[ ] per Calculation Amount
(20)	Issuer Call due to MREL Disqualification Event	[Applicable]/[Not Applicable] *(Only relevant in the case of Senior Notes)*
	(i) Early Redemption Amount	[[ ] per Calculation Amount/as set out in Condition 5(f)]
(21)	Final Redemption Amount:	[ ] per Calculation Amount
(22)	Early Redemption Amount payable on redemption for taxation reasons or on event of default:	[ ] per Calculation Amount (*N.B. If the Final Redemption Amount is 100 per cent. of the nominal value (i.e. par), the Early Redemption Amount is likely to be par (but consider). If, however, the Final Redemption Amount is other than 100 per cent. of the nominal value, consideration should be given as to what the Early Redemption Amount should be.*) See also paragraph (19) (Regulatory Call:)] (*Delete this cross-reference unless the Notes are Subordinated Notes and the Regulatory Call is applicable*)

GENERAL PROVISIONS APPLICABLE TO THE NOTES

(23)	Form of Notes:	
	(i) Form:	[Temporary Global Note exchangeable for a Permanent Global Note which is exchangeable for Definitive Notes upon an Exchange Event] [Temporary Global Note exchangeable for Definitive Notes on and after the Exchange Date] [Permanent Global Note exchangeable for Definitive Notes upon an Exchange Event] *(N.B. The exchange upon notice/at any time options should not be expressed to be applicable if the Specified Denomination of the Notes in paragraph (5) includes language substantially to the following effect: "[€100,000] and integral multiples of [€1,000] in excess thereof up to and including [€199,000]." Furthermore, such Specified Denomination construction is not permitted in relation to any*

		issue of Notes which is to be represented on issue by a Temporary Global Note exchangeable for Definitive Notes)
	(ii) New Global Note:	[Yes]/[No]
(24)	Additional Financial Centre(s):	[Not Applicable] [●] (*Specify Additional Financial Centres, if any*)] (*Note that this paragraph relates to the date of payment and not the end dates of Interest Periods for the purposes of calculating the amount of interest to which sub-paragraph 15 (iii) relates*)
(25)	Talons for future Coupons to be attached to Definitive Notes:	[Yes, as the Notes have more than 27 coupon payments, Talons may be required if, on exchange into definitive form, more than 27 coupon payments are still to be made]/[No]

THIRD PARTY INFORMATION

[[*Relevant third party information*] has been extracted from [*specify source*]. The Issuer confirms that such information has been accurately reproduced and that, so far as it is aware and is able to ascertain from information published by [*specify source*], no facts have been omitted which would render the reproduced information inaccurate or misleading.]

[Signed on behalf of Banca Monte dei Paschi di Siena S.p.A.:

By: ....
Duly authorised]

PART B – OTHER INFORMATION

(1) **LISTING AND ADMISSION TO TRADING**

(i)	Listing and admission to trading:	[Application has been made by the Issuer (or on its behalf) for the Notes to be admitted to trading on Luxembourg Stock Exchange's regulated market and listed on the Official List of the Luxembourg Stock Exchange with effect from [ ].] [Application is expected to be made by the Issuer (or on its behalf) for the Notes to be admitted to trading on Luxembourg Stock Exchange's regulated market and listed on the Official List of the Luxembourg Stock Exchange with effect from [ ].] [Not Applicable.]
(ii)	Estimate of total expenses related to admission to trading:	[ ]

(2) **RATINGS**

Ratings: [Not Applicable.] [The Notes to be issued [[have been]/[are expected to be]] rated]/[The following ratings reflect ratings assigned to Notes of this type issued under the Programme generally]:

[*insert details*]] by [*insert the legal name of the relevant credit rating agency entity(ies) and associated defined terms*].

Each of [*defined terms*] is established in the European Union and is registered under Regulation (EC) No. 1060/2009 (as amended) (the "**CRA Regulation**").]

(*The above disclosure should reflect the rating allocated to Notes of the type being issued under the Programme generally or, where the issue has been specifically rated, that rating*)

(3) **INTERESTS OF NATURAL AND LEGAL PERSONS INVOLVED IN THE ISSUE**

[Save for any fees payable to the [Managers/Dealers], so far as the Issuer is aware, no person involved in the issue of the Notes has an interest material to the offer.] [The [Managers/Dealers] and their affiliates have engaged, and may in the future engage, in investment banking and/or commercial banking transactions with, and may perform other services for, the Issuer and its affiliates in the ordinary course of business. – *Amend as appropriate if there are other interests*]

[*(When adding any other description, consideration should be given as to whether such matters described constitute "significant new factors" and consequently trigger the need for a supplement to the Base Prospectus under Article 16 of the Prospectus Directive.)*]

(4) **YIELD (Fixed Rate Notes only)**

Indication of yield:		[ ]

(5) **OPERATIONAL INFORMATION**

(i)	ISIN:	[ ]
(ii)	Common Code:	[ ]
(iii)	Any clearing system(s) other than Euroclear and Clearstream Luxembourg and the relevant identification number(s):	[Not Applicable/[*give name(s), address(es) and number(s)*]]
(iv)	Delivery:	Delivery [against/free of] payment
(v)	Names and addresses of additional Paying Agent(s) (if any):	[ ]
(vi)	Intended to be held in a manner which would allow Eurosystem eligibility:	[Yes. Note that the designation "yes" simply means that the Notes are intended upon issue to be deposited with one of the ICSDs as common safekeeper and does not necessarily mean that the Notes will be recognised as eligible collateral for Eurosystem monetary policy and intra-day credit operations by the Eurosystem either upon issue or at any or all times during their life. Such recognition will depend upon the ECB being satisfied that Eurosystem eligibility criteria have been met.]/ [No. Whilst the designation is specified as "no" at the date of these Final Terms, should the Eurosystem eligibility criteria be amended in the future such that the Notes are capable of meeting them the Notes may then be deposited with one of the ICSDs as common safekeeper. Note that this does not necessarily mean that the Notes will then be recognised as eligible collateral for Eurosystem monetary policy and intra day credit operations by the Eurosystem at any time during their life. Such recognition will depend upon the ECB being satisfied that Eurosystem eligibility criteria have been met.]]

(6) **DISTRIBUTION**

(i)	Method of distribution:	[Syndicated/Non-syndicated]
(ii)	If syndicated, names of Managers:	[Not Applicable/give names]
(iii)	Date of [Subscription] Agreement:	[ ]
(iv)	Stabilisation Manager(s) (if	[Not Applicable/*give name*]

	any):	
(v)	If non-syndicated, name of relevant Dealer:	[Not Applicable/*give name*]
(vi)	U.S. Selling Restrictions:	[Reg. S Compliance Category 2;[TEFRA D/TEFRA C/TEFRA not applicable]]
(vii)	Prohibition of Sales to EEA Retail Investors:	[Applicable/Not Applicable] (*If the offer of the Notes is concluded prior to 1 January 2018, or on and after that date the Notes clearly do not constitute "packaged" products, "Not Applicable" should be specified. If the offer of the Notes will be concluded on or after 1 January 2018 and the Notes may constitute "packaged" products, "Applicable" should be specified.*)

APPLICABLE PRICING SUPPLEMENT

[**PROHIBITION OF SALES TO EEA RETAIL INVESTORS** – The Notes[, from 1 January 2018,][9] are not intended to be offered, sold or otherwise made available to and[, with effect from such date,] should not be offered, sold or otherwise made available to any retail investor in the European Economic Area ("**EEA**"). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU ("**MiFID II**"); (ii) a customer within the meaning of Directive 2002/92/EC ("**IMD**"), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or (iii) not a qualified investor as defined in Directive 2003/71/EC (as amended, the "**Prospectus Directive**"). Consequently no key information document required by Regulation (EU) No 1286/2014 (the "**PRIIPs Regulation**") for offering or selling the Notes or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.][10]

EXEMPT NOTES OF ANY DENOMINATION

Set out below is the form of Pricing Supplement which will be completed for each Tranche of Exempt Notes, whatever the denomination of those Notes, issued under the Programme.

NO PROSPECTUS IS REQUIRED IN ACCORDANCE WITH DIRECTIVE 2003/71/EC FOR THE ISSUE OF NOTES DESCRIBED BELOW.

[*Date*]

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

Issue of [Aggregate Nominal Amount of Tranche] [Title of Notes]

under the €50,000,000,000

Debt Issuance Programme

PART A – CONTRACTUAL TERMS

Any person making or intending to make an offer of the Notes may only do so in circumstances in which no obligation arises for the Issuer or any Dealer to publish a prospectus pursuant to Article 3 of the Prospectus Directive or to supplement a prospectus pursuant to Article 16 of the Prospectus Directive, in each case, in relation to such offer.

This document constitutes the Pricing Supplement for the Notes described herein. This document must be read in conjunction with the Base Prospectus dated 15 December 2017 [as supplemented by the supplement[s] dated [*date[s]*]] (the "**Base Prospectus**"). Full information on the Issuer and the offer of the Notes is only available on the basis of the combination of this Pricing Supplement and the Base Prospectus. Copies of the Base Prospectus may be obtained from be obtained from the Agent at Citigroup Centre, Canada Square, Canary Wharf, London E14 5LB.

[*Include whichever of the following apply or specify as "Not Applicable". Note that the numbering should remain as set out below, even if "Not Applicable" is indicated for individual paragraphs or subparagraphs. Italics denote directions for completing the Pricing Supplement*.]

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[9] This date reference should not be included in Pricing Supplements for offers concluded on or after 1 January 2018.

[10] Legend to be included on front of the Pricing Supplement (i) for offers concluded on or after 1 January 2018 if the Notes potentially constitute "packaged" products or the issuer wishes to prohibit offers to EEA retail investors for any other reason, in which case the selling restriction should be specified to be "Applicable" (ii) for offers concluded before 1 January 2018 at the option of the parties.

[*If the Notes have a maturity of less than one year from the date of their issue, the minimum denomination [must/may need to] be £100,000 or its equivalent in any other currency*.]

1.	(a)	Issuer:	Banca Monte dei Paschi di Siena S.p.A.
2.	(a)	Series Number:	[ ]
	(b)	Tranche Number:	[ ]
	(c)	Date on which the Notes will be consolidated and form a single Series:	The Notes will be consolidated and form a single Series with [*identify earlier Tranches*] on [the Issue Date/exchange of the Temporary Global Note for interests in the Permanent Global Note, as referred to in paragraph 24 below, which is expected to occur on or about [*date*]][Not Applicable]
3.	Specified Currency or Currencies:		[ ]
4.	Aggregate Nominal Amount:		
	(a)	Series:	[ ]
	(b)	Tranche:	[ ]
5.	Issue Price:		[ ] per cent. of the Aggregate Nominal Amount [plus accrued interest from [*insert date*] (*if applicable*)]
6.	Specified Denominations:		[ ]
	(a)	Calculation Amount:	[ ] (*If only one Specified Denomination, insert the Specified Denomination. If more than one Specified Denomination, insert the highest common factor. Note: There must be a common factor in the case of two or more Specified Denominations*.)
7.	(a)	Issue Date:	[ ]
	(b)	Interest Commencement Date:	[*specify*/Issue Date/Not Applicable] (*N.B. An Interest Commencement Date will not be relevant for certain Notes, for example Zero Coupon Notes.*)
8.	Maturity Date:		[*Specify date or for* *Floating rate notes - Interest Payment Date falling in or nearest to [specify month and year]]*
9.	Interest Basis:		[[ ] per cent. Fixed Rate] [[ ] per cent. to be reset on [ ] [and [ ] and every [ ] anniversary thereafter] [[*specify Reference Rate*] +/- [ ] per cent. Floating Rate] [Zero Coupon]] [*specify other*] (further particulars specified below)

10.	Redemption/Payment Basis:		[Redemption at par] [Partly Paid] [Instalment] [*specify other*]
11.	Change of Interest Basis or Redemption/Payment Basis:		[*Specify details of any provision for change of Notes into another Interest Basis or Redemption/Payment Basis*][Not Applicable]
12.	Put/Call Options:		[Regulatory Call] [Issuer Call due to MREL Disqualification Event] [Issuer Call] [(further particulars specified below)]
13.	(a)	Status of the Notes:	[Senior Notes/Subordinated Notes]
	(b)	[Date [Board] approval for issuance of Notes obtained:	[ ] (*N.B. Only required where Board (or similar) authorisation is required for the particular tranche of Notes*)]

PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE

14.	Fixed Rate Note Provisions		[Applicable/Not Applicable] (*If not applicable, delete the remaining subparagraphs of this paragraph*)
	(a)	Rate(s) of Interest:	[ ] per cent. per annum payable in arrear on each Interest Payment Date
	(b)	Interest Payment Date(s):	[ ] in each year up to and including the Maturity Date (*Amend appropriately in the case of irregular coupons*)
	(c)	Fixed Coupon Amount(s): (*Applicable to Notes in definitive form.*)	[ ] per Calculation Amount
	(d)	Broken Amount(s): (*Applicable to Notes in definitive form.*)	[[ ] per Calculation Amount, payable on the Interest Payment Date falling [in/on] [ ]][Not Applicable]
	(e)	Day Count Fraction:	[30/360/Actual/Actual (ICMA)/*specify other*]
	(f)	[Determination Date(s):	[[ ] in each year][Not Applicable] (*Only relevant where Day Count Fraction is Actual/Actual (ICMA). In such a case, insert regular interest payment dates, ignoring issue date or maturity date in the case of a long or short first or last coupon*]
	(g)	[Ratings Step-up/Step-down:	[Applicable/Not Applicable] (*If not applicable, delete the remaining subparagraphs of this paragraph*)]
	(h)	Other terms relating to the method of calculating interest for Fixed Rate	[None/*Give details*]

		Notes which are Exempt Notes:	
15.	Reset Note Provisions:		[Applicable/Not Applicable]
	(a)	Initial Rate of Interest:	[ ] per cent. per annum payable in arrear [on each Interest Payment Date]
	(b)	First Margin:	[+/-][ ] per cent. per annum
	(c)	Subsequent Margin:	[[+/-][ ] per cent. per annum] [Not Applicable]
	(d)	Interest Payment Date(s):	[ ] [and [ ]] in each year up to and including the Maturity Date [until and excluding [ ]]
	(e)	Fixed Coupon Amount up to (but excluding) the First Reset Date:	[[ ] per Calculation Amount][Not Applicable]
	(f)	Broken Amount(s):	[[ ] per Calculation Amount payable on the Interest Payment Date falling [in/on] [ ]][Not Applicable]
	(g)	First Reset Date:	[ ]
	(h)	Second Reset Date:	[ ]/[Not Applicable]
	(i)	Subsequent Reset Date(s):	[ ] [and [ ]]
	(j)	Relevant Screen Page:	[●]/[Not Applicable]
	(k)	Mid-Swap Rate:	[Single Mid-Swap Rate/Mean Mid-Swap Rate]
	(l)	Mid-Swap Maturity	[ ]
	(m)	Day Count Fraction:	[Actual/Actual / Actual/Actual (ISDA)] [Actual/365 (Fixed)] [Actual/365 (Sterling)] [Actual/360] [30/360/360/360/Bond Basis] [30E/360/Eurobond Basis] [30E/360 (ISDA)] [Actual/Actual ICMA]
	(n)	Determination Dates:	[ ] in each year
	(o)	Business Centre(s):	[ ]
	(p)	Calculation Agent:	[the Agent] / [ ]
16.	Floating Rate Note Provisions		[Applicable/Not Applicable] (*If not applicable, delete the remaining subparagraphs of this paragraph*)
	(a)	Specified Period(s)/Specified Interest Payment Dates:	[ ][, subject to adjustment in accordance with the Business Day Convention set out in (b) below /, not subject to any adjustment, as the Business Day Convention in (b) below

is specified to be Not Applicable]

(b)	Business Day Convention:	[Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/ Preceding Business Day Convention/[*specify other*]][Not Applicable]
(c)	Additional Business Centre(s):	[ ]
(d)	Manner in which the Rate of Interest and Interest Amount is to be determined:	[Screen Rate Determination/ISDA Determination/*specify other*]
(e)	Party responsible for calculating the Rate of Interest and Interest Amount (if not the Agent):	[ ]
(f)	Screen Rate Determination:	
	• Reference Rate:	[ ] month [LIBOR/EURIBOR/*specify other Reference Rate*]. *(Either LIBOR, EURIBOR or other, although additional information is required if other, including fallback provisions in the Agency Agreement.)*
	• Interest Determination Date(s):	[ ] *(Second London business day prior to the start of each Interest Period if LIBOR (other than Sterling or euro LIBOR), first day of each Interest Period if Sterling LIBOR and the second day on which the TARGET2 System is open prior to the start of each Interest Period if EURIBOR or euro LIBOR)*
	• Relevant Screen Page:	[ ] *(In the case of EURIBOR, if not Reuters EURIBOR01 ensure it is a page which shows a composite rate or amend the fallback provisions appropriately)*
(g)	ISDA Determination:	
	• Floating Rate Option:	[ ]
	• Designated Maturity:	[ ]
	• Reset Date:	[ ] (*In the case of a LIBOR or EURIBOR based option, the first day of the Interest Period*)
(h)	Linear Interpolation:	[Not Applicable/Applicable - the Rate of Interest for the [long/short] [first/last] Interest Period shall be calculated using Linear Interpolation (*specify for each short or long*

		interest period)]]
(i)	Margin(s):	[+/-] [ ] per cent. per annum
(j)	Minimum Rate of Interest:	[ ] per cent. per annum
(k)	Maximum Rate of Interest:	[ ] per cent. per annum
(l)	Day Count Fraction:	[Actual/Actual (ISDA)][Actual/Actual] Actual/365 (Fixed) Actual/365 (Sterling) Actual/360 [30/360][360/360][Bond Basis] [30E/360][Eurobond Basis] 30E/360 (ISDA) *Other*]
(m)	Fallback provisions, rounding provisions and any other terms relating to the method of calculating interest on Floating Rate Notes which are Exempt Notes, if different from those set out in the Terms and Conditions:	[ ]

17.	Zero Coupon Note Provisions	[Applicable/Not Applicable] (*If not applicable, delete the remaining subparagraphs of this paragraph*)
	(a) Accrual Yield:	[ ] per cent. per annum
	(b) Reference Price:	[ ]
	(c) Any other formula/basis of determining amount payable for Zero Coupon Notes which are Exempt Notes:	[ ]
	(d) Day Count Fraction in relation to Early Redemption Amounts:	[30/360] [Actual/360] [Actual/365]

PROVISIONS RELATING TO REDEMPTION

18.	Notice periods for Condition 5:	Minimum period: [ ] days Maximum period: [ ] days (*N.B. When setting notice, the Issuer is advised to consider the practicalities of distribution of information through intermediaries, for example, clearing systems* (*which require a minimum of 5clearing system business days' notice for a call) and custodians, as well as any other notice requirements which may apply, for example, as between the Issuer and the Agent*)

19.	Issuer Call:		[Applicable/Not Applicable] (*If not applicable, delete the remaining subparagraphs of this paragraph*)
	(a)	Optional Redemption Date(s):	[ ] *(If the Notes are Subordinated Notes, unless otherwise permitted by current laws, regulations, directives and/or the Bank of Italy's requirements, applicable to the issue of Subordinated Notes, the Optional Redemption Date shall not be earlier than five years after the Issue Date.)*
	(b)	Optional Redemption Amount and method, if any, of calculation of such amount(s):	[[ ] per Calculation Amount/*specify other*/see Appendix]
	(c)	If redeemable in part:	
		(i) Minimum Redemption Amount:	[ ]
		(ii) Maximum Redemption Amount:	[ ]
20.	Regulatory Call:		[Applicable/Not Applicable] (*If not applicable, delete the remaining subparagraphs of this paragraph*) (*Only relevant in the case of Subordinated Notes*)
	(a)	Early Redemption Amount payable on redemption for regulatory reasons as contemplated by Condition 5(d) and/or the method of calculating the same (if required or if different from that set out in Condition 5(f) (Redemption and Purchase – Early Redemption Amounts):	[ ] per Calculation Amount
21.	Issuer Call due to MREL Disqualification Event:		[Applicable]/[Not Applicable] *(Only relevant in the case of Senior Notes)*
	(i)	Early Redemption Amount	[[ ] per Calculation Amount/as set out in Condition 5(f)]
22.	Final Redemption Amount:		[[ ] per Calculation Amount/*specify other*/see Appendix]

23.	Early Redemption Amount payable on redemption for taxation reasons or on event of default and/or the method of calculating the same:	[[ ] per Calculation Amount/*specify other*/see Appendix] (*N.B. If the Final Redemption Amount is 100 per cent. of the nominal value (i.e. par), the Early Redemption Amount is likely to be par (but consider). If, however, the Final Redemption Amount is other than 100 per cent. of the nominal value, consideration should be given as to what the Early Redemption Amount should be.*)

GENERAL PROVISIONS APPLICABLE TO THE NOTES

24.	Form of Notes:	
	(a) [Form:]	[Temporary Global Note exchangeable for a Permanent Global Note which is exchangeable for Definitive Notes upon an Exchange Event] [Temporary Global Note exchangeable for Definitive Notes on and after the Exchange Date] [Permanent Global Note exchangeable for Definitive Notes upon an Exchange Event] [Notes shall not be physically delivered in Belgium, except to a clearing system, a depository or other institution for the purpose of their immobilisation in accordance with article 4 of the Belgian Law of 14 December 2005.] (*Ensure that this is consistent with the wording in the "Form of the Notes" section in the Base Prospectus and the Notes themselves.*)
	(b) [New Global Note:	[Yes][No]]
25.	Additional Financial Centre(s):	[Not Applicable/*give details*] (*Note that this paragraph relates to the date of payment and not the end dates of Interest Periods for the purposes of calculating the amount of interest, to which sub-paragraph 16(c) relates*)
26.	Talons for future Coupons to be attached to Definitive Notes:	[Yes, as the Notes have more than 27 coupon payments, Talons may be required if, on exchange into definitive form, more than 27 coupon payments are still to be made/No]
27.	Details relating to Partly Paid Notes: amount of each payment comprising the Issue Price and date on which each payment is to be made and consequences (if any) of failure to pay, including any right of the Issuer to forfeit the Notes and interest due on late payment.	[Not Applicable/*give details. N.B. A new form of Temporary Global Note and/or Permanent Global Note may be required for Partly Paid issues*]
28.	Details relating to Instalment Notes:	[Applicable/Not Applicable] (*If not applicable, delete the remaining subparagraphs of this paragraph*)

(a)	Instalment Amount(s):	[*give details*]
(b)	Instalment Date(s):	[*give details*]

29. Other terms or special conditions: [Not Applicable/*give details*]

RESPONSIBILITY

The Issuer accepts responsibility for the information contained in this Pricing Supplement. [[*Relevant third party information*] has been extracted from [*specify source*]. The Issuer confirms that such information has been accurately reproduced and that, so far as it is aware and is able to ascertain from information published by [*specify source*], no facts have been omitted which would render the reproduced information inaccurate or misleading.

[Signed on behalf of Banca Monte dei Paschi di Siena S.p.A.:

By: ....
Duly authorised]

PART B – OTHER INFORMATION

1.	**LISTING**	[Application [has been made/is expected to be made] by the Issuer (or on its behalf) for the Notes to be listed on [*specify market - note this must not be a regulated market*] with effect from [ ].][Not Applicable]
2.	**RATINGS**	
	Ratings:	[Not Applicable.] [The Notes to be issued [[have been]/[are expected to be]] rated [insert details] by [insert the legal name of the relevant credit rating agency entity(ies)] (*The above disclosure is only required if the ratings of the Notes are different to those stated in the Base Prospectus*)

3. INTERESTS OF NATURAL AND LEGAL PERSONS INVOLVED IN THE ISSUE

[Save for any fees payable to the [Managers/Dealers], so far as the Issuer is aware, no person involved in the issue of the Notes has an interest material to the offer. The [Managers/Dealers] and their affiliates have engaged, and may in the future engage, in investment banking and/or commercial banking transactions with, and may perform other services for, the Issuer and its affiliates in the ordinary course of business - *Amend as appropriate if there are other interests*]

4. OPERATIONAL INFORMATION

ISIN Code:		[ ]
(i)	Common Code:	[ ]
(ii)	Any clearing system(s) other than Euroclear and Clearstream Luxembourg and the relevant identification number(s):	[Not Applicable/*give name(s) and number(s)*]
(iii)	Delivery:	Delivery [against/free of] payment
(iv)	Names and addresses of additional Paying Agent(s) (if any):	[ ]
(v)	[Intended to be held in a manner which would allow Eurosystem eligibility:	[Yes. Note that the designation "yes" simply means that the Notes are intended upon issue to be deposited with one of the ICSDs as common safekeeper and does not necessarily mean that the Notes will be recognised as eligible collateral for Eurosystem monetary policy and intra day credit operations by the Eurosystem either upon issue or at any or all times during their life. Such recognition will depend upon the ECB being satisfied that Eurosystem eligibility criteria have been met.]/

[No. Whilst the designation is specified as "no" at the date of this Pricing Supplement, should the Eurosytem eligibility criteria be amended in the future such that the Notes are capable of meeting them the Notes may then be deposited with one of the ICSDs as common safekeeper. Note that this does not necessarily mean that the Notes will then be recognised as eligible collateral for Eurosystem monetary policy and intra day credit operations by the Eurosystem at any time during their life. Such recognition will depend upon the ECB being satisfied that Eurosystem eligibility criteria have been met.]]

5. DISTRIBUTION

(i)	Method of distribution:	[Syndicated/Non-syndicated]
(ii)	If syndicated, names of Managers:	[Not Applicable/*give names*]
(iii)	Stabilisation Manager(s) (if any):	[Not Applicable/*give name*]
(iv)	If non-syndicated, name of relevant Dealer:	[Not Applicable/*give name*]
(v)	U.S. Selling Restrictions:	Reg. S Compliance Category [1/2/3]; [TEFRA D/TEFRA C/TEFRA not applicable]
(vi)	Additional selling restrictions:	[Not Applicable/*give details*] (*Additional selling restrictions are only likely to be relevant for certain structured Notes, such as commodity-linked Notes*)
(vii)	Prohibition of Sales to EEA Retail Investors:	[Applicable/Not Applicable] (If the offer of the Notes is concluded prior to 1 January 2018, or on and after that date the Notes clearly do not constitute "packaged" products, "Not Applicable" should be specified. If the offer of the Notes will be concluded on or after 1 January 2018 and the Notes may constitute "packaged" products, "Applicable" should be specified.)

TERMS AND CONDITIONS OF THE NOTES

The following are the Terms and Conditions of the Notes which will be incorporated by reference into each Global Note (as defined below) and each definitive Note, in the latter case only if permitted by the rules of the relevant stock exchange (if any) and agreed by the Issuer and the relevant Dealer at the time of issue but, if not so permitted and agreed, such definitive Note will have endorsed thereon or attached thereto such Terms and Conditions. The applicable Pricing Supplement in relation to any Tranche of Exempt Notes may specify other terms and conditions which shall, to the extent so specified or to the extent inconsistent with the following Terms and Conditions, replace or modify the following Terms and Conditions for the purpose of such Notes. The Form of Final Terms (or the relevant provisions thereof) will be endorsed upon, or attached to, each Global Note and definitive Note. Reference should be made to "Form of Final Terms" for a description of the content of Final Terms which will specify which of such terms are to apply in relation to the relevant Notes.

This Note is one of a Series (as defined below) of Notes issued by Banca Monte dei Paschi di Siena S.p.A. (the "**Issuer**" or "**BMPS**") pursuant to the Agency Agreement (as defined below).

References herein to the "**Notes**" shall be references to the Notes of this Series and shall mean:

(i) in relation to any Notes represented by a global Note (a "**Global Note**"), units of each Specified Denomination in the Specified Currency;

(ii) any Global Note; and

(iii) any definitive Notes issued in exchange for a Global Note.

The Notes, the Receipts (as defined below) and the Coupons (as defined below) have the benefit of an amended and restated Agency Agreement dated 15 December 2017 (such Agency Agreement as further amended and/or supplemented and/or restated from time to time, the "**Agency Agreement**"), and made between the Issuer, Citibank, N.A., London Branch as issuing and principal paying agent and agent bank (the "**Agent**", which expression shall include any successor agent) and the other paying agents named therein (together with the Agent, the "**Paying Agents**", which expression shall include any additional or successor paying agents).

The Final Terms for this Note (or the relevant provisions thereof) are set out in Part A of the Final Terms attached to or endorsed on this Note which complete these Terms and Conditions (the "**Conditions**") or, if this Note is a Note which is neither admitted to trading on a regulated market in the European Economic Area nor offered in the European Economic Area in circumstances where a prospectus is required to be published under the Prospectus Directive (an "**Exempt Note**"), the final terms (or the relevant provisions thereof) are set out in Part A of the Pricing Supplement and may specify other terms and conditions which shall, to the extent so specified or to the extent inconsistent with the Conditions, replace or modify the Conditions for the purposes of this Note. References to the "Form of Final Terms" are, unless otherwise stated, to Part A of the Final Terms (or the relevant provisions thereof) attached to or endorsed on this Note. Any reference in the Conditions to Form of Final Terms shall be deemed to include a reference to "applicable Pricing Supplement" where relevant. The expression "**Prospectus Directive**" means Directive 2003/71/EC (and amendments thereto, including the 2010 PD Amending Directive) to the extent implemented in the relevant Member State of the European Economic Area and includes any relevant implementing measure in the relevant Member State and the expression "**2010 PD Amending Directive**" means Directive 2010/73/EU.

Interest bearing definitive Notes have interest coupons ("**Coupons**") and, in the case of Notes which, when issued in definitive form, have more than 27 interest payments remaining, talons for further Coupons ("**Talons**") attached on issue. Any reference herein to Coupons or coupons shall, unless the context otherwise requires, be deemed to include a reference to Talons or talons. Exempt Notes in definitive form which are repayable in instalments have receipts ("**Receipts**") for the payment of the instalments of principal (other than

the final instalment) attached on issue. Global Notes do not have Receipts, Coupons or Talons attached on issue.

Any reference to "**Noteholders**" or "**holders**" in relation to any Notes shall mean the holders of the Notes and shall, in relation to any Notes represented by a global Note, be construed as provided below. Any reference herein to "**Receiptholders**" shall mean the holders of the Receipts and any reference herein to "**Couponholders**" shall mean the holders of the Coupons and shall, unless the context otherwise requires, include the holders of the Talons.

As used herein, "**Tranche**" means Notes which are identical in all respects (including as to listing and admission to trading) and "**Series**" means a Tranche of Notes together with any further Tranche or Tranches of Notes which (i) are expressed to be consolidated and form a single series and (ii) have the same terms and conditions or terms and conditions which are the same in all respects save for the amount and date of the first payment of interest thereon and the date from which interest starts to accrue.

The Noteholders, the Receiptholders and the Couponholders are entitled to the benefit of the Deed of Covenant (such Deed of Covenant as modified and/or supplemented and/or restated from time to time, the "**Deed of Covenant**") dated 15 December 2017 and made by the Issuer. The original of the Deed of Covenant is held by the common depositary for Euroclear and Clearstream, Luxembourg (each as defined below).

Copies of the Agency Agreement and the Deed of Covenant are available for inspection during normal business hours at the specified office of each of the Paying Agents. If the Notes are to be admitted to trading on the regulated market of the Luxembourg Stock Exchange the Form of Final Terms will be published on the website of the Luxembourg Stock Exchange (www.bourse.lu). If this Note is an Exempt Note, the applicable Pricing Supplement will only be obtainable by a Noteholder holding one or more Notes and such Noteholder must produce evidence satisfactory to the Issuer and the relevant Paying Agent as to its holding of such Notes and identity. The Noteholders, the Receiptholders and the Couponholders are deemed to have notice of, and are entitled to the benefit of, all the provisions of the Agency Agreement, the Deed of Covenant and the Form of Final Terms which are applicable to them. The statements in the Conditions include summaries of, and are subject to, the detailed provisions of the Agency Agreement.

Words and expressions defined in the Agency Agreement or used in the Form of Final Terms shall have the same meanings where used in the Conditions unless the context otherwise requires or unless otherwise stated and provided that, in the event of inconsistency between the Agency Agreement and the Form of Final Terms, the Form of Final Terms will prevail.

1. Form, Denomination and Title

The Notes are in bearer form and, in the case of definitive Notes, serially numbered, in the currency (the "**Specified Currency**") and the denominations (the "**Specified Denomination(s)**") specified in the Form of Final Terms. Notes of one Specified Denomination may not be exchanged for Notes of another Specified Denomination.

Unless this Note is an Exempt Note, this Note may be a Fixed Rate Note, a Reset Note, a Floating Rate Note or a Zero Coupon Note, or a combination of any of the foregoing, depending upon the Interest Basis shown in the Form of Final Terms.

If this Note is an Exempt Note, this Note may be a Fixed Rate Note, a Reset Note, a Floating Rate Note, a Zero Coupon Note or a combination of any of the foregoing, depending upon the Interest Basis shown in the applicable Pricing Supplement.

If this Note is an Exempt Note, this Note may also be an Instalment Note, a Partly Paid Note or a combination of any of the foregoing, depending on the Redemption/Payment Basis shown in the Form of Final Terms.

This Note is a Senior Note or a Subordinated Note, depending on the Status of the Notes specified in the Form of Final Terms.

Definitive Notes are issued with Coupons attached, unless they are Zero Coupon Notes in which case references to Coupons and Couponholders in the Conditions are not applicable.

Subject as set out below, title to the Notes, Receipts and Coupons will pass by delivery. The Issuer and the Paying Agents will (except as otherwise required by law) deem and treat the bearer of any Note, Receipt or Coupon as the absolute owner thereof (whether or not overdue and notwithstanding any notice of ownership or writing thereon or notice of any previous loss or theft thereof) for all purposes but, in the case of any Global Note, without prejudice to the provisions set out in the next succeeding paragraph.

For so long as any of the Notes is represented by a Global Note held on behalf of Euroclear Bank S.A./N.V. ("**Euroclear**") and/or Clearstream Banking, société anonyme ("**Clearstream, Luxembourg**"), each person (other than Euroclear or Clearstream, Luxembourg) who is for the time being shown in the records of Euroclear or of Clearstream, Luxembourg as the holder of a particular nominal amount of such Notes (in which regard any certificate or other document issued by Euroclear or Clearstream, Luxembourg as to the nominal amount of such Notes standing to the account of any person shall be conclusive and binding for all purposes save in the case of manifest error) shall be treated by the Issuer and the Paying Agents as the holder of such nominal amount of such Notes for all purposes other than with respect to the payment of principal or interest on such nominal amount of such Notes, for which purpose the bearer of the relevant Global Note shall be treated by the Issuer and any Paying Agent as the holder of such nominal amount of such Notes in accordance with and subject to the terms of the relevant Global Note and the expressions "Noteholder" and "holder of Notes" and related expressions shall be construed accordingly.

Notes which are represented by a Global Note will be transferable only in accordance with the rules and procedures for the time being of Euroclear and Clearstream, Luxembourg, as the case may be. References to Euroclear and/or Clearstream, Luxembourg shall, whenever the context so permits, be deemed to include a reference to any additional or alternative clearing system specified in Part B of the Form of Final Terms.

2. Status of the Notes and Subordination

(a) Status of the Senior Notes

This Condition 2(a) applies only to Senior Notes.

(i) The Senior Notes and any relative Receipts and Coupons are direct, unconditional, unsubordinated and unsecured obligations of the Issuer and rank (subject to any obligations preferred by any applicable law, including any obligations permitted by law to rank, and expressed to rank, senior to the Senior Notes, on or following the Issue Date) *pari passu* with all other unsecured obligations (other than obligations ranking junior to the Senior Notes from time to time (including any obligations permitted by law to rank, and expressed to rank, junior to the Senior Notes, on or following the Issue Date), if any) of the Issuer, present and future and *pari passu* and rateably without any preference among themselves.

(ii) Each holder of a Senior Note unconditionally and irrevocably waives any right of set-off, netting, counterclaim, abatement or other similar remedy which it might otherwise have under the laws of any jurisdiction in respect of such Senior Note.

(b) Status of the Subordinated Notes

This Condition 2(b) applies only to Subordinated Notes.

(i) The Subordinated Notes (notes intended to qualify as Tier 2 capital for regulatory capital purposes, in accordance with Part II, Chapter 1 of the Bank of Italy's *Disposizioni di Vigilanza per le Banche*, as set out in Bank of Italy Circular No. 285 of 17 December 2013, as amended or supplemented from time to time (the "**Bank of Italy Regulations**"), including any successor regulations, and Article 63 of the CRR) (the "**Subordinated Notes**") and the Receipts and Coupons relating to them constitute unconditional, subordinated and unsecured obligations of the Issuer and, subject to this Condition 2(b), will rank *pari passu* and without any preference among themselves.

(ii) In the event of liquidation (including in the event the Issuer becomes subject to *Liquidazione Coatta Amministrativa*, as defined in the Italian Consolidated Banking Act) or insolvency of the Issuer, the payment obligations of the Issuer under the Subordinated Notes and the Receipt and Coupons relating to them shall rank in right of payment after all unsubordinated, unsecured creditors (including depositors) of the Issuer and after all creditors of the Issuer holding instruments that are less subordinated than the relevant Subordinated Notes but at least *pari passu* with all other present and future subordinated obligations of the Issuer that are not expressed by their terms to rank or which do not rank junior or senior to the relevant Subordinated Notes and in priority to the claims of shareholders of the Issuer.

(iii) In relation to each Series of Subordinated Notes all Subordinated Notes of such Series will be treated equally and all amounts paid by BMPS in respect of principal and interest thereon will be paid *pro rata* on all Subordinated Notes of such Series.

(iv) Each holder of a Subordinated Note or Coupon unconditionally and irrevocably waives any right of set-off, netting, counterclaim, abatement or other similar remedy which it might otherwise have, under the laws of any jurisdiction, in respect of such Subordinated Note or Coupon.

3. Interest

(a) Interest on Fixed Rate Notes

Each Fixed Rate Note bears interest from (and including) the Interest Commencement Date at the rate(s) per annum equal to the Rate(s) of Interest payable in arrear on the Interest Payment Date(s) in each year up to (and including) the Maturity Date.

If the Notes are in definitive form, except as provided in the Form of Final Terms, the amount of interest payable on each Interest Payment Date will amount to the Fixed Coupon Amount. Payments of interest on any Interest Payment Date will, if so specified in the Form of Final Terms, amount to the Broken Amount so specified.

Except in the case of Notes in definitive form where a Fixed Coupon Amount or Broken Amount is specified in the Form of Final Terms, interest shall be calculated in respect of any period by applying the Rate of Interest to:

(i) in the case of Fixed Rate Notes which are represented by a Global Note, the aggregate outstanding nominal amount of the Fixed Rate Notes represented by such Global Note (or, if they are Partly Paid Notes, the aggregate amount paid up); or

(ii) in the case of Fixed Rate Notes in definitive form, the Calculation Amount;

and, in each case, multiplying such sum by the applicable Day Count Fraction, and rounding the resultant figure to the nearest sub-unit of the relevant Specified Currency, half of any such sub-unit being rounded upwards or otherwise in accordance with applicable market convention. Where the Specified Denomination of a Fixed Rate Note in definitive form is a multiple of the Calculation

Amount, the amount of interest payable in respect of such Fixed Rate Note shall be the product of the amount (determined in the manner provided above) for the Calculation Amount and the amount by which the Calculation Amount is multiplied to reach the Specified Denomination, without any further rounding.

"**Day Count Fraction**" means, in respect of the calculation of an amount of interest in accordance with this Condition 3(a):

(i) if "**Actual/Actual (ICMA)**" is specified in the Form of Final Terms:

(a) in the case of Notes where the number of days in the relevant period from (and including) the most recent Interest Payment Date (or, if none, the Interest Commencement Date) to (but excluding) the relevant payment date (the "Accrual Period") is equal to or shorter than the Determination Period during which the Accrual Period ends, the number of days in such Accrual Period divided by the product of (1) the number of days in such Determination Period and (2) the number of Determination Dates that would occur in one calendar year assuming interest was to be payable in respect of the whole of that year; or

(b) in the case of Notes where the Accrual Period is longer than the Determination Period commencing on the last Interest Payment Date on which interest was paid (or, if none, the Interest Commencement Date), the sum of:

(1) the number of days in such Accrual Period falling in the Determination Period in which the Accrual Period begins divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Dates that would occur in one calendar year assuming interest was to be payable in respect of the whole of that year; and

(2) the number of days in such Accrual Period falling in the next Determination Period divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Dates that would occur in one calendar year assuming interest was to be payable in respect of the whole of that year; and

(ii) if "30/360" is specified in the Form of Final Terms, the number of days in the period from and including the most recent Interest Payment Date (or, if none, the Interest Commencement Date) to but excluding the relevant payment date (such number of days being calculated on the basis of a year of 360 days with 12 30-day months) divided by 360.

In the Conditions:

"**Determination Period**" means the period from and including a Determination Date to but excluding the next Determination Date; and

"**sub-unit**" means, with respect to any currency other than euro, the lowest amount of such currency that is available as legal tender in the country of such currency and, with respect to euro, means one cent.

(b) Interest on Reset Notes

(i) *Rates of Interest and Interest Payment Dates*

Each Reset Note bears interest:

(A) from (and including) the Interest Commencement Date until (but excluding) the First Reset Date at the Initial Rate of Interest;

(B) from (and including) the First Reset Date until (but excluding) the Second Reset Date or, if no such Second Reset Date is specified in the Form of Final Terms, the Maturity Date at the rate per annum equal to the First Reset Rate of Interest; and

(C) for each Subsequent Reset Period thereafter (if any), at the relevant Subsequent Reset Rate of Interest,

payable, in each case, in arrear on the each Interest Payment Date and on the Maturity Date if that does not fall on an Interest Payment Date. The Rate of Interest and the Interest Amount payable shall be determined by the Calculation Agent, (i) in the case of the Rate of Interest, at or as soon as practicable after each time at which the Rate of Interest is to be determined, and (ii) in the case of the Interest Amount in accordance with the provisions for calculating amounts of interest in Condition 3(a).

For the purposes of the Conditions:

"**First Margin**" means the margin specified as such in the Form of Final Terms;

"**First Reset Date**" means the date specified in the Form of Final Terms;

"**First Reset Period**" means the period from (and including) the First Reset Date until (but excluding) the Second Reset Date or, if no such Second Reset Date is specified in the Form of Final Terms, the Maturity Date;

"**First Reset Rate of Interest**" means, in respect of the First Reset Period and subject to Condition 3(b)(ii), the rate of interest determined by the Calculation Agent on the relevant Reset Determination Date as the sum of the relevant Mid-Swap Rate and the First Margin;

"**Initial Rate of Interest**" has the meaning specified in the Form of Final Terms;

"**Interest Commencement Date**" means the date specified as such in the Form of Final Terms;

"**Mid-Market Swap Rate**" means for any Reset Period the mean of the bid and offered rates for the fixed leg payable with a frequency equivalent to the frequency with which scheduled interest payments are payable on the Notes during the relevant Reset Period (calculated on the day count basis customary for fixed rate payments in the Specified Currency as determined by the Calculation Agent) of a fixed-for-floating interest rate swap transaction in the Specified Currency which transaction (i) has a term equal to the relevant Reset Period and commencing on the relevant Reset Date, (ii) is in an amount that is representative for a single transaction in the relevant market at the relevant time with an acknowledged dealer of good credit in the swap market and (iii) has a floating leg based on the Mid-Swap Floating Leg Benchmark Rate for the Mid-Swap Maturity (as specified in the Form of Final Terms) (calculated on the day count basis customary for floating rate payments in the Specified Currency as determined by the Calculation Agent);

"**Mid-Market Swap Rate Quotation**" means a quotation (expressed as a percentage rate per annum) for the relevant Mid-Market Swap Rate;

"**Mid-Swap Floating Leg Benchmark Rate**" means EURIBOR if the Specified Currency is euro or LIBOR for the Specified Currency if the Specified Currency is not euro;

"**Mid-Swap Rate**" means, in relation to a Reset Determination Date and subject to Condition 3(b)(ii), either:

(A) if Single Mid-Swap Rate is specified in the Form of Final Terms, the rate for swaps in the Specified Currency:

(i) with a term equal to the relevant Reset Period; and

(ii) commencing on the relevant Reset Date,

which appears on the Relevant Screen Page; or

(B) if Mean Mid-Swap Rate is specified in the Form of Final Terms, the arithmetic mean (expressed as a percentage rate per annum and rounded, if necessary, to the nearest 0.001 per cent. (0.0005 per cent. being rounded upwards)) of the bid and offered swap rate quotations for swaps in the Specified Currency:

(i) with a term equal to the relevant Reset Period; and

(ii) commencing on the relevant Reset Date,

which appear on the Relevant Screen Page,

in either case, as at approximately 11.00 a.m. in the principal financial centre of the Specified Currency on such Reset Determination Date, all as determined by the Calculation Agent;

"**Rate of Interest**" means the Initial Rate of Interest, the First Reset Rate of Interest or the Subsequent Reset Rate of Interest, as applicable;

"**Reset Date**" means the First Reset Date, the Second Reset Date and each Subsequent Reset Date (as applicable);

"**Reset Determination Date**" means, in respect of the First Reset Period, the second Business Day prior to the First Reset Date, in respect of the first Subsequent Reset Period, the second Business Day prior to the Second Reset Date and, in respect of each Subsequent Reset Period thereafter, the second Business Day prior to the first day of each such Subsequent Reset Period;

"**Reset Period**" means the First Reset Period or a Subsequent Reset Period, as the case may be;

"**Second Reset Date**" means the date specified in the Form of Final Terms;

"**Subsequent Margin**" means the margin specified as such in the Form of Final Terms;

"**Subsequent Reset Date**" means the date or dates specified in the Form of Final Terms;

"**Subsequent Reset Period**" means the period from (and including) the Second Reset Date to (but excluding) the next Subsequent Reset Date, and each successive period from (and including) a Subsequent Reset Date to (but excluding) the next succeeding Subsequent Reset Date; and

"**Subsequent Reset Rate of Interest**" means, in respect of any Subsequent Reset Period and subject to Condition 3(b)(ii), the rate of interest determined by the Calculation Agent on the relevant Reset Determination Date as the sum of the relevant Mid-Swap Rate and the relevant Subsequent Margin.

(ii) *Fallbacks*

If on any Reset Determination Date the Relevant Screen Page is not available or the Mid-Swap Rate does not appear on the Relevant Screen Page, the Calculation Agent shall request each of the Reference Banks (as defined below) to provide the Calculation Agent with its Mid-Market Swap Rate

Quotation as at approximately 11.00 a.m. in the principal financial centre of the Specified Currency on the Reset Determination Date in question.

If two or more of the Reference Banks provide the Calculation Agent with Mid-Market Swap Rate Quotations, the First Reset Rate of Interest or the Subsequent Reset Rate of Interest (as applicable) for the relevant Reset Period shall be the sum of the arithmetic mean (rounded, if necessary, to the nearest 0.001 per cent. (0.0005 per cent. being rounded upwards)) of the relevant Mid-Market Swap Rate Quotations and the First Margin or Subsequent Margin (as applicable), all as determined by the Calculation Agent.

If on any Reset Determination Date only one or none of the Reference Banks provides the Calculation Agent with a Mid-Market Swap Rate Quotation as provided in the foregoing provisions of this paragraph, the First Reset Rate of Interest or the Subsequent Reset Rate of Interest (as applicable) shall be determined to be the Rate of Interest as at the last preceding Reset Date or, in the case of the first Reset Determination Date, the First Reset Rate of Interest shall be the Initial Rate of Interest.

For the purposes of this Condition 3(b)(ii) "Reference Banks" means the principal office in the principal financial centre of the Specified Currency of four major banks in the swap, money, securities or other market most closely connected with the relevant Mid-Swap Rate as selected by the Issuer on the advice of an investment bank of international repute.

(c) Interest on Floating Rate Notes

(i) *Interest Payment Dates*

Each Floating Rate Note bears interest from (and including) the Interest Commencement Date and such interest will be payable in arrear on either:

(A) the Specified Interest Payment Date(s) (each an "Interest Payment Date") in each year specified in the Form of Final Terms; or

(B) if no Specified Interest Payment Date(s) is/are specified in the Form of Final Terms, each date (each an "Interest Payment Date") which falls the number of months or other period specified as the Specified Period in the Form of Final Terms after the preceding Interest Payment Date or, in the case of the first Interest Payment Date, after the Interest Commencement Date.

Such interest will be payable in respect of each Interest Period. In the Conditions, "**Interest Period**" means the period from (and including) an Interest Payment Date (or the Interest Commencement Date) to (but excluding) the next (or first) Interest Payment Date).

If a Business Day Convention is specified in the Form of Final Terms and (x) if there is no numerically corresponding day in the calendar month in which an Interest Payment Date should occur or (y) if any Interest Payment Date would otherwise fall on a day which is not a Business Day, then, if the Business Day Convention specified is:

(1) in any case where Specified Periods are specified in accordance with Condition 3(c)(i)(B) above, the Floating Rate Convention, such Interest Payment Date (i) in the case of (x) above, shall be the last day that is a Business Day in the relevant month and the provisions of (B) below shall apply mutatis mutandis or (ii) in the case of (y) above, shall be postponed to the next day which is a Business Day unless it would thereby fall into the next calendar month, in which event (A) such Interest Payment Date shall be brought forward to the immediately preceding Business Day and (B) each subsequent Interest Payment Date shall be the last

Business Day in the month which falls the Specified Period after the preceding applicable Interest Payment Date occurred; or

(2) the Following Business Day Convention, such Interest Payment Date shall be postponed to the next day which is a Business Day; or

(3) the Modified Following Business Day Convention, such Interest Payment Date shall be postponed to the next day which is a Business Day unless it would thereby fall into the next calendar month, in which event such Interest Payment Date shall be brought forward to the immediately preceding Business Day; or

(4) the Preceding Business Day Convention, such Interest Payment Date shall be brought forward to the immediately preceding Business Day.

In the Conditions, "**Business Day**" means:

(A) a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in each Additional Business Centre specified in the Form of Final Terms; and

(B) either (1) in relation to any sum payable in a Specified Currency other than euro, a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in the principal financial centre of the country of the relevant Specified Currency (which if the Specified Currency is Australian dollars or New Zealand dollars shall be Sydney or Auckland, respectively) or (2) in relation to any sum payable in euro, a day on which Trans-European Automated Real-Time Gross Settlement Express Transfer ("**TARGET2**") System (the "**TARGET2 System**") is open.

(ii) *Rate of Interest*

The Rate of Interest payable from time to time in respect of Floating Rate Notes will be determined in the manner specified in the Form of Final Terms.

(A) ISDA Determination for Floating Rate Notes

Where ISDA Determination is specified in the Form of Final Terms as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Period will be the relevant ISDA Rate plus or minus (as indicated in the Form of Final Terms) the Margin (if any). For the purposes of this sub paragraph (A), "**ISDA Rate**" for an Interest Period means a rate equal to the Floating Rate that would be determined by the Agent under an interest rate swap transaction if the Agent were acting as Calculation Agent for that swap transaction under the terms of an agreement incorporating the 2006 ISDA Definitions as published by the International Swaps and Derivatives Association Inc. and as amended and updated as at the Issue Date of the first Tranche of the Notes (the "ISDA Definitions") and under which:

(1) the Floating Rate Option is as specified in the Form of Final Terms;

(2) the Designated Maturity is a period specified in the Form of Final Terms; and

(3) the relevant Reset Date is the day specified in the Form of Final Terms.

For the purposes of this sub-paragraph (A), "**Floating Rate**", "**Calculation Agent**", "**Floating Rate Option**", "**Designated Maturity**" and "**Reset Date**" have the meanings given to those terms in the ISDA Definitions.

Unless otherwise stated in the Form of Final Terms the Minimum Rate of Interest shall be deemed to be zero.

(B) Screen Rate Determination for Floating Rate Notes

Where Screen Rate Determination is specified in the Form of Final Terms as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Period will, subject as provided below, be either:

(1) the offered quotation; or

(2) the arithmetic mean (rounded if necessary to the fifth decimal place, with 0.000005 being rounded upwards) of the offered quotations,

(expressed as a percentage rate per annum) for the Reference Rate (being either the London inter-bank offered rate ("**LIBOR**") or the Eurozone inter-bank offered rate ("**EURIBOR**"), as specified in the Form of Final Terms, which appears or appear, as the case may be, on the Relevant Screen Page as at 11.00 a.m. (London time, in the case of LIBOR, or Brussels time, in the case of EURIBOR) on the Interest Determination Date in question plus or minus (as indicated in the Form of Final Terms) the Margin (if any), all as determined by the Agent. If five or more of such offered quotations are available on the Relevant Screen Page (or such replacement page on that service which displays the information), the highest (or, if there is more than one such highest quotation, one only of such quotations) and the lowest (or, if there is more than one such lowest quotation, one only of such quotations) shall be disregarded by the Agent for the purpose of determining the arithmetic mean (rounded as provided above) of such offered quotations.

If the Relevant Screen Page is not available or if, in the case of (1) above, no offered quotation appears or, in the case of (2) above, fewer than three offered quotations appear, in each case as at the Specified Time, the Agent shall request each of the Reference Banks to provide the Agent with its offered quotation (expressed as a percentage rate per annum) for the Reference Rate at approximately the Specified Time on the Interest Determination Date in question. If two or more of the Reference Banks provide the Agent with offered quotations, the Rate of Interest for the Interest Period shall be the arithmetic mean (rounded if necessary to the fifth decimal place with 0.000005 being rounded upwards) of the offered quotations plus or minus (as appropriate) the Margin (if any), all as determined by the Agent.

If on any Interest Determination Date one only or none of the Reference Banks provides the Agent with an offered quotation as provided in the preceding paragraph, the Rate of Interest for the relevant Interest Period shall be the rate per annum which the Agent determines as being the arithmetic mean (rounded if necessary to the fifth decimal place, with 0.000005 being rounded upwards) of the rates, as communicated to (and at the request of) the Agent by the Reference Banks or any two or more of them, at which such banks were offered, at approximately the Specified Time on the relevant Interest Determination Date, deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate by leading banks in the London inter-bank market (if the Reference Rate is

LIBOR) or the Euro-zone inter-bank market (if the Reference Rate is EURIBOR) plus or minus (as appropriate) the Margin (if any) or, if fewer than two of the Reference Banks provide the Agent with offered rates, the offered rate for deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate, or the arithmetic mean (rounded as provided above) of the offered rates for deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate, at which, at approximately the Specified Time on the relevant Interest Determination Date, any one or more banks (which bank or banks is or are in the opinion of the Issuer suitable for the purpose) informs the Agent it is quoting to leading banks in the London inter-bank market (if the Reference Rate is LIBOR) or the Euro-zone inter-bank market (if the Reference Rate is EURIBOR) plus or minus (as appropriate) the Margin (if any), provided that, if the Rate of Interest cannot be determined in accordance with the foregoing provisions of this paragraph, the Rate of Interest shall be determined as at the last preceding Interest Determination Date (though substituting, where a different Margin is to be applied to the relevant Interest Period from that which applied to the last preceding Interest Period, the Margin relating to the relevant Interest Period in place of the Margin relating to that last preceding Interest Period).

If the Reference Rate from time to time in respect of Floating Rate Notes is specified in the applicable Final Terms as being other than LIBOR or EURIBOR, the Rate of Interest in respect of the Notes will be determined as provided in the applicable Final Terms.

For the purposes of this Condition 3(c)(ii), "**Reference Banks**" means, in the case of a determination of LIBOR, the principal London office of four major banks in the London inter-bank market and, in the case of a determination of EURIBOR, the principal Euro-zone office of four major banks in the Euro-zone inter-bank market, in each case selected by the Agent in consultation with the Issuer.

(iii) *Minimum Rate of Interest and/or Maximum Rate of Interest*

If the Form of Final Terms specifies a Minimum Rate of Interest for any Interest Period, then, in the event that the Rate of Interest in respect of such Interest Period determined in accordance with the provisions of paragraph (ii) above is less than such Minimum Rate of Interest, the Rate of Interest for such Interest Period shall be such Minimum Rate of Interest.

If the Form of Final Terms specifies a Maximum Rate of Interest for any Interest Period, then, in the event that the Rate of Interest in respect of such Interest Period determined in accordance with the provisions of paragraph (ii) above is greater than such Maximum Rate of Interest, the Rate of Interest for such Interest Period shall be such Maximum Rate of Interest.

(iv) *Determination of Rate of Interest and calculation of Interest Amounts*

The Agent will at or as soon as practicable after each time at which the Rate of Interest is to be determined, determine the Rate of Interest for the relevant Interest Period.

The Agent will calculate the amount of interest (the "**Interest Amount**") payable on the Floating Rate Notes for the relevant Interest Period by applying the Rate of Interest to:

(i) in the case of Floating Rate Notes which are represented by a Global Note, the aggregate outstanding nominal amount of the Notes represented by such Global Note (or, if they are Partly Paid Notes, the aggregate amount paid up); or

(ii) in the case of Floating Rate Notes in definitive form, the Calculation Amount;

and, in each case, multiplying such sum by the applicable Day Count Fraction, and rounding the resultant figure to the nearest sub-unit of the relevant Specified Currency, half of any such sub-unit being rounded upwards or otherwise in accordance with applicable market convention. Where the Specified Denomination of a Floating Rate Note in definitive form is a multiple of the Calculation Amount, the Interest Amount payable in respect of such Note shall be the product of the amount (determined in the manner provided above) for the Calculation Amount and the amount by which the Calculation Amount is multiplied to reach the Specified Denomination without any further rounding.

"**Day Count Fraction**" means, in respect of the calculation of an amount of interest for any Interest Period:

(i) if "**Actual/Actual (ISDA)**" or "**Actual/Actual**" is specified in the Form of Final Terms, the actual number of days in the Interest Period divided by 365 (or, if any portion of that Interest Period falls in a leap year, the sum of (A) the actual number of days in that portion of the Interest Period falling in a leap year divided by 366 and (B) the actual number of days in that portion of the Interest Period falling in a non-leap year divided by 365);

(ii) if "**Actual/365 (Fixed)**" is specified in the Form of Final Terms, the actual number of days in the Interest Period divided by 365;

(iii) if "**Actual/365 (sterling)**" is specified in the Form of Final Terms, the actual number of days in the Interest Period divided by 365 or, in the case of an Interest Payment Date falling in a leap year, 366;

(iv) if "**Actual/360**" is specified in the Form of Final Terms, the actual number of days in the Interest Period divided by 360;

(v) if "**30/360**", "**360/360**" or "**Bond Basis**" is specified in the Form of Final Terms, the number of days in the Interest Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

"$\mathbf{Y_1}$" is the year, expressed as a number, in which the first day of the Interest Period falls;

"$\mathbf{Y_2}$" is the year, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

"$\mathbf{M_1}$" is the calendar month, expressed as a number, in which the first day of the Interest Period falls;

"$\mathbf{M_2}$" is the calendar month, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

"$\mathbf{D_1}$" is the first calendar day, expressed as a number, of the Interest Period, unless such number is 31, in which case D_1 will be 30; and

"D_2" is the calendar day, expressed as a number, immediately following the last day included in the Interest Period, unless such number would be 31 and D_1 is greater than 29, in which case D_2 will be 30;

(vi) if "**30E/360**" or "**Eurobond Basis**" is specified in the Form of Final Terms, the number of days in the Interest Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

"Y_1" is the year, expressed as a number, in which the first day of the Interest Period falls;

"Y_2" is the year, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

"M_1" is the calendar month, expressed as a number, in which the first day of the Interest Period falls;

"M_2" is the calendar month, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

"D_1" is the first calendar day, expressed as a number, of the Interest Period, unless such number would be 31, in which case D_1 will be 30; and

"D_2" is the calendar day, expressed as a number, immediately following the last day included in the Interest Period, unless such number would be 31, in which case D_2 will be 30; and

(vii) if "**30E/360 (ISDA)**" is specified in the Form of Final Terms, the number of days in the Interest Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

"Y_1" is the year, expressed as a number, in which the first day of the Interest Period falls;

"Y_2" is the year, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

"M_1" is the calendar month, expressed as a number, in which the first day of the Interest Period falls;

"M_2" is the calendar month, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

"D_1" is the first calendar day, expressed as a number, of the Interest Period, unless (i) that day is the last day of February or (ii) such number would be 31, in which case D_1 will be 30; and

"**D_2**" is the calendar day, expressed as a number, immediately following the last day included in the Interest Period, unless (i) that day is the last day of February but not the Maturity Date or (ii) such number would be 31, in which case D_2 will be 30.

(v) *Linear Interpolation*

Where Linear Interpolation is specified as applicable in respect of an Interest Period in the Form of Final Terms, the Rate of Interest for such Interest Period shall be calculated by the Agent by straight line linear interpolation by reference to two rates based on the relevant Reference Rate (where Screen Rate Determination is specified as applicable in the Form of Final Terms) or the relevant Floating Rate Option (where ISDA Determination is specified as applicable in the Form of Final Terms), one of which shall be determined as if the Designated Maturity were the period of time for which rates are available next shorter than the length of the relevant Interest Period and the other of which shall be determined as if the Designated Maturity were the period of time for which rates are available next longer than the length of the relevant Interest Period provided however that if there is no rate available for a period of time next shorter or, as the case may be, next longer, then the Agent shall determine such rate at such time and by reference to such sources as it determines appropriate.

"**Designated Maturity**" means, in relation to Screen Rate Determination, the period of time designated in the Reference Rate.

(vi) *Notification of Rate of Interest and Interest Amounts*

The Agent will cause the Rate of Interest and each Interest Amount for each Interest Period and the relevant Interest Payment Date to be notified to the Issuer and any stock exchange on which the relevant Floating Rate Notes are for the time being listed (by no later than the first day of each Interest Period) and notice thereof to be published in accordance with Condition 12 as soon as possible after their determination but in no event later than the fourth London Business Day thereafter. Each Interest Amount and Interest Payment Date so notified may subsequently be amended (or appropriate alternative arrangements made by way of adjustment) without prior notice in the event of an extension or shortening of the Interest Period. Any such amendment will promptly be notified to each stock exchange on which the relevant Floating Rate Notes are for the time being listed and to the Noteholders in accordance with Condition 12. For the purposes of this paragraph, the expression "London Business Day" means a day (other than a Saturday or a Sunday) on which banks and foreign exchange markets are open for business in London.

(vii) *Certificates to be final*

All certificates, communications, opinions, determinations, calculations, quotations and decisions given, expressed, made or obtained for the purposes of the provisions of this Condition 3(c), whether by the Agent or shall (in the absence of wilful default, bad faith or manifest error) be binding on the Issuer, the Agent, the other Paying Agents and all Noteholders, Receiptholders and Couponholders and (in the absence of wilful default, bad faith or manifest error) no liability to the Issuer, the Noteholders, the Receiptholders or the Couponholders shall attach to the Agent in connection with the exercise or non-exercise by it of its powers, duties and discretions pursuant to such provisions.

(d) Exempt Notes

In the case of Exempt Notes which are also Floating Rate Notes where the applicable Pricing Supplement identifies that Screen Rate Determination applies to the calculation of interest, if the Reference Rate from time to time is specified in the applicable Pricing Supplement as being other

than LIBOR or EURIBOR, the Rate of Interest in respect of such Exempt Notes will be determined as provided in the applicable Pricing Supplement.

In the case of Exempt Notes which are not also Fixed Rate Notes or Floating Rate, if the rate or amount of interest falls to be determined by reference to an exchange rate, the rate or amount of interest payable shall be determined in the manner specified in the applicable Pricing Supplement.

Interest on Partly Paid Notes

In the case of Partly Paid Notes (other than Partly Paid Notes which are Zero Coupon Notes), interest will accrue as aforesaid on the paid-up nominal amount of such Notes and otherwise as specified in the applicable Pricing Supplement.

(e) Accrual of interest

Each Note (or in the case of the redemption of part only of a Note, that part only of such Note) will cease to bear interest (if any) from the date for its redemption unless payment of principal is improperly withheld or refused. In such event, interest will continue to accrue until whichever is the earlier of:

(i) the date on which all amounts due in respect of such Note have been paid; and

(ii) five days after the date on which the full amount of the moneys payable in respect of such Note has been received by the Agent and notice to that effect has been given to the Noteholders in accordance with Condition 12.

4. Payments

(a) Method of payment

Subject as provided below:

(i) payments in a Specified Currency other than euro will be made by credit or transfer to an account in the relevant Specified Currency maintained by the payee with, or, at the option of the payee, by a cheque in such Specified Currency drawn on, a bank in the principal financial centre of the country of such Specified Currency (which if the Specified Currency is Australian dollars or New Zealand dollars shall be Sydney or Auckland, respectively); and

(ii) payments in euro will be made by credit or transfer to a euro account (or any other account to which euro may be credited or transferred) specified by the payee or, at the option of the payee, by a euro cheque.

(b) Payments Subject to Fiscal and Other Laws

Payments will be subject in all cases to (i) any fiscal or other laws and regulations applicable thereto in any jurisdiction, but without prejudice to the provisions of Condition 6, and (ii) any withholding or deduction required pursuant to an agreement described in Section 1471(b) of the U.S. Internal Revenue Code of 1986 (the "**Code**") or otherwise imposed pursuant to Sections 1471 through 1474 of the Code, any regulations or agreements thereunder, any official interpretations thereof, or (without prejudice to the provisions of Condition 6) any law implementing an intergovernmental approach thereto.

(c) Presentation of definitive Notes, Receipts and Coupons

Payments of principal in respect of definitive Notes will (subject as provided below) be made in the manner provided in paragraph (a) above only against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of definitive Notes, and payments of interest in respect of definitive Notes will (subject as provided below) be made as aforesaid only against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of Coupons, in each case at the specified office of any Paying Agent outside the United States (which expression, as used herein, means the United States of America (including the States and the District of Columbia and its possessions)).

Fixed Rate Notes in definitive form (other than Long Maturity Notes (as defined below) and save as provided in Condition 4(e)) should be presented for payment together with all unmatured Coupons appertaining thereto (which expression shall for this purpose include Coupons falling to be issued on exchange of matured Talons), failing which the amount of any missing unmatured Coupon (or, in the case of payment not being made in full, the same proportion of the amount of such missing unmatured Coupon as the sum so paid bears to the sum due) will be deducted from the sum due for payment. Each amount of principal so deducted will be paid in the manner mentioned above against surrender of the relative missing Coupon at any time before the expiry of 10 years after the Relevant Date (as defined in Condition 6) in respect of such principal (whether or not such Coupon would otherwise have become void under Condition 7) or, if later, five years from the date on which such Coupon would otherwise have become due, but in no event thereafter.

Upon any Fixed Rate Note in definitive form becoming due and repayable prior to its Maturity Date, all unmatured Talons (if any) appertaining thereto will become void and no further Coupons will be issued in respect thereof.

Upon the date on which any Floating Rate Note or Long Maturity Note in definitive form becomes due and repayable, unmatured Coupons and Talons (if any) relating thereto (whether or not attached) shall become void and no payment or, as the case may be, exchange for further Coupons shall be made in respect thereof. A "**Long Maturity Note**" is a Fixed Rate Note (other than a Fixed Rate Note which on issue had a Talon attached) whose nominal amount on issue is less than the aggregate interest payable thereon provided that such Note shall cease to be a Long Maturity Note on the Interest Payment Date on which the aggregate amount of interest remaining to be paid after that date is less than the nominal amount of such Note.

If the due date for redemption of any definitive Note is not an Interest Payment Date, interest (if any) accrued in respect of such Note from (and including) the preceding Interest Payment Date or, as the case may be, the Interest Commencement Date shall be payable only against surrender of the relevant definitive Note.

(d) Payments in respect of Global Notes

Payments of principal and interest (if any) in respect of Notes represented by any Global Note will (subject as provided below) be made in the manner specified above in relation to definitive Notes and otherwise in the manner specified in the relevant Global Note, where applicable, against presentation or surrender, as the case may be, of such Global Note at the specified office of any Paying Agent outside the United States. A record of each payment made distinguishing between any payment of principal and any payment of interest, will be made either on such Global Note by the Paying Agent to which it was presented or in the records of Euroclear and Clearstream, Luxembourg as applicable.

(e) Specific provisions in relation to payments in respect of certain types of Exempt Notes

Payments of instalments of principal (if any) in respect of definitive Notes, other than the final instalment, will (subject as provided below) be made in the manner provided in Condition 4(a) above only against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of the relevant Receipt in accordance with the preceding paragraph. Payment of the final instalment

will be made in the manner provided in Condition 4(a) above only against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of the relevant Note in accordance with the preceding paragraph. Each Receipt must be presented for payment of the relevant instalment together with the definitive Note to which it appertains. Receipts presented without the definitive Note to which they appertain do not constitute valid obligations of the Issuer. Upon the date on which any definitive Note becomes due and repayable, unmatured Receipts (if any) relating thereto (whether or not attached) shall become void and no payment shall be made in respect thereof.

(f) General provisions applicable to payments

The holder of a Global Note shall be the only person entitled to receive payments in respect of Notes represented by such Global Note and the Issuer will be discharged by payment to, or to the order of, the holder of such Global Note in respect of each amount so paid. Each of the persons shown in the records of Euroclear or Clearstream, Luxembourg as the beneficial holder of a particular nominal amount of Notes represented by such Global Note must look solely to Euroclear or Clearstream, Luxembourg, as the case may be, for his share of each payment so made by the Issuer to, or to the order of, the holder of such Global Note.

Notwithstanding the foregoing provisions of this Condition, if any amount of principal and/or interest in respect of Notes is payable in U.S. dollars, such U.S. dollar payments of principal and/or interest in respect of such Notes will be made at the specified office of a Paying Agent in the United States if:

(i) the Issuer has appointed Paying Agents with specified offices outside the United States with the reasonable expectation that such Paying Agents would be able to make payment in U.S. dollars at such specified offices outside the United States of the full amount of principal and interest on the Notes in the manner provided above when due;

(ii) payment of the full amount of such principal and interest at all such specified offices outside the United States is illegal or effectively precluded by exchange controls or other similar restrictions on the full payment or receipt of principal and interest in U.S. dollars; and

(iii) such payment is then permitted under United States law without involving, in the opinion of the Issuer, adverse tax consequences to the Issuer.

(g) Payment Day

If the date for payment of any amount in respect of any Note, Receipt or Coupon is not a Payment Day, the holder thereof shall not be entitled to payment until the next following Payment Day in the relevant place and shall not be entitled to further interest or other payment in respect of such delay. For these purposes, "**Payment Day**" means any day which (subject to Condition 7) is:

(i) a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits):

   (A) in the relevant place of presentation, in the case of Notes in definitive form only; and

   (B) in each Additional Financial Centre specified in the Form of Final Terms; and

(ii) either (1) in relation to any sum payable in a Specified Currency other than euro, a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in the principal financial centre of the country of the relevant Specified Currency (which if the Specified Currency is Australian dollars or New Zealand dollars shall be Sydney or

Auckland, respectively) or (2) in relation to any sum payable in euro, a day on which the TARGET2 System is open.

(h) Interpretation of principal and interest

Any reference in the Conditions to principal in respect of the Notes shall be deemed to include, as applicable:

(i) any additional amounts which may be payable with respect to principal under Condition 6;

(ii) the Final Redemption Amount of the Notes;

(iii) the Early Redemption Amount of the Notes;

(iv) the Optional Redemption Amount(s) (if any) of the Notes;

(v) in relation to Exempt Notes redeemable in instalments, the Instalment Amounts;

(vi) in relation to Zero Coupon Notes, the Amortised Face Amount (as defined in Condition 5(f); and

(vii) any premium and any other amounts other than interest which may be payable by the Issuer under or in respect of the Notes.

Any reference in the Conditions to interest in respect of the Notes shall be deemed to include, as applicable, any additional amounts which may be payable with respect to interest under Condition 6.

5. Redemption and Purchase

(a) Redemption at maturity

Unless previously redeemed or purchased and cancelled as specified below, each Note will be redeemed by the Issuer (i) at least *at par* in case of Fixed Rate Notes, Reset Notes, Floating Rate Notes and Zero Coupon Notes, as specified in the Form of Final Terms in the relevant Specified Currency and on the Maturity Date specified in the Form of Final Terms (ii) in the case of Exempt Notes, at its Final Redemption Amount specified in the applicable Pricing Supplement in the relevant Specified Currency on the Maturity Date specified in the Applicable Pricing Supplement.

(b) Redemption for tax reasons

Subject to Condition 5(f), Notes may be redeemed at the option of the Issuer (subject to, in the case of Senior Notes and Subordinated Notes, the provisions of, respectively, Conditions 5(i) and 5(h)) in whole, but not in part, at any time (if this Note is not a Floating Rate Note) or on any Interest Payment Date (if this Note is a Floating Rate Note), on giving not less than the minimum period and not more than the maximum period of notice specified in the Form of Final Terms to the Agent and, in accordance with Condition 12, the Noteholders (which notice shall be irrevocable), if:

(i) on the occasion of the next payment due under the Notes (in the case of Subordinated Notes, in respect of payments of interest only), the Issuer has or will become obliged to pay additional amounts as provided or referred to in Condition 6 and, in making payment itself, would be required to pay such additional amounts, in each case as a result of any change in, or amendment to, the laws or regulations of a Tax Jurisdiction (as defined in Condition 6) or any political subdivision of, or any authority in, or of, a Tax Jurisdiction having power to tax, or any change in the application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after the date on which agreement is reached

to issue the first Tranche of the Notes, provided that in the case of Subordinated Notes the Issuer demonstrates to the satisfaction of the relevant Competent Authority that such change or amendment is material and was not reasonably foreseeable by BMPS as at the date of the issue of the relevant Subordinated Notes; and

(ii) such obligation cannot be avoided by the Issuer taking reasonable measures available to it,

provided that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Issuer would be obliged to pay such additional amounts were a payment in respect of the Notes then due.

Prior to the publication of any notice of redemption pursuant to this Condition, the Issuer shall deliver to the Agent to make available at its specified office to the Noteholders (i) a certificate signed by two Directors of the Issuer stating that the Issuer is entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent to the right of the Issuer so to redeem have occurred, and (ii) an opinion of independent legal advisers of recognised standing to the effect that the Issuer has or will become obliged to pay such additional amounts as a result of such change or amendment.

Each Note redeemed pursuant to this Condition 5(b) will be redeemed at its Early Redemption Amount referred to in paragraph (f) below together (if appropriate) with interest accrued to (but excluding) the date of redemption.

(c) Redemption at the option of the Issuer (Issuer Call)

If Issuer Call is specified as being applicable in in the Form of Final Terms, the Issuer may (subject to, in the case of Senior Notes and Subordinated Notes, the provisions of, respectively, Conditions 5(i) and 5(h)), having given not less than the minimum period nor more than the maximum period of notice specified in the Form of Final Terms to the Noteholders in accordance with Condition 12 (which notice shall be irrevocable and shall specify the date fixed for redemption), redeem all or some only of the Notes then outstanding on any Optional Redemption Date and at the Optional Redemption Amount(s) specified in the Form of Final Terms together, if appropriate, with interest accrued to (but excluding) the relevant Optional Redemption Date. Any such redemption must be of a nominal amount not less than the Minimum Redemption Amount and not more than the Maximum Redemption Amount, in each case as may be specified in the Form of Final Terms.

In the case of a partial redemption of Notes, the Notes to be redeemed ("**Redeemed Notes**") will, subject to compliance with applicable law, (i) in the case of Redeemed Notes represented by definitive Notes, be selected individually by lot, not more than 30 days prior to the date fixed for redemption and (ii) in the case of Redeemed Notes represented by a Global Note, be selected in accordance with the rules of Euroclear and/or Clearstream, Luxembourg (to be reflected in the records of Euroclear and Clearstream, Luxembourg as either a pool factor or a reduction in nominal amount, at their discretion). In the case of Redeemed Notes represented by definitive Notes, a list of the serial numbers of such Redeemed Notes will be published in accordance with Condition 12 not less than 15 days prior to the date fixed for redemption.

(d) Redemption for Regulatory Reasons

If Regulatory Call is specified in the Form of Final Terms, upon occurrence of a Capital Event, the Issuer may (subject to the provisions of Condition 5(h)), on any Interest Payment Date (if this Note is a Floating Rate Note), or at any time (if this Note is not a Floating Rate Note), on giving not less than 15 nor more than 30 days' notice to the Principal Paying Agent and in accordance with Condition 12 irrevocable notice to the Noteholders (or such other notice period as may be specified hereon) redeem all (but not some only) of the Notes then outstanding at any time at their Early Redemption Amount

referred to in Condition 5(f) below together (if appropriate) with interest accrued to (but excluding) the date fixed for redemption.

For the purpose of these Conditions:

a "**Capital Event**" is deemed to have occurred if, as a result of any change (or pending change which the relevant Competent Authority considers to be sufficiently certain) in the regulatory classification of the Notes under the Regulatory Capital Requirements that the Issuer demonstrates to the satisfaction of the relevant Competent Authority was not reasonably foreseeable by the Issuer as at the Issue Date of the Notes, the Notes are (or would be) excluded (in whole or in part) from the Tier 2 Capital of the Issuer and/or the Group;

"**Competent Authority**" means the Bank of Italy and/or, to the extent applicable in any relevant situation, the European Central Bank or any successor or replacement entity to either, or other authority or authorities having primary responsibility for the prudential oversight and supervision of the Issuer at the relevant time; and

"**Tier 2 Capital**" has the meaning given to it by the Regulatory Capital Requirements from time to time.

(e) Issuer Call due to MREL Disqualification Event

In respect of any Series of Senior Notes where Issuer Call due to MREL Disqualification Event is specified as being applicable in the Form of Final Terms, then the Issuer may (subject to the provisions of Condition 5(i)) on any Interest Payment Date (if this Note is a Floating Rate Note), or at any time (if this Note is not a Floating Rate Note), on giving not less than the minimum period nor more than the maximum period of notice specified in the Form of Final Terms to the Noteholders in accordance with Condition 12 (which notice shall be irrevocable), redeem all (but not some only) of the Notes then outstanding at any time at their Early Redemption Amount as described in Condition 5(f) below (if appropriate) with interest accrued to (but excluding) the date fixed for redemption, if the Issuer determines that a MREL Disqualification Event has occurred and is continuing.

As used in these Conditions:

"**BRRD**" means Directive 2014/59/EU of the European Parliament and of the Council of 15 May 2014 establishing a framework for the recovery and resolution of credit institutions and investment firms, as amended or replaced from time to time;

"**CRD IV Package**" means, taken together (i) the CRD IV Directive, and (ii) the CRR;

"**CRD IV Directive**" means Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC, as amended or replaced from time to time;

"**CRR**" means Regulation (EU) No. 2013/575 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No. 648/2012, as amended or replaced from time to time;

"**EC Proposals**" means the amendments proposed to the CRD IV Directive, the CRR and BRRD published by the European Commission on 23 November 2016;

"**Group Entity**" means the Issuer or any legal person that is part of the Group;

"**Loss Absorption Power**" means any statutory write-down and/or conversion power existing from time to time under any laws, regulations, rules or requirements relating to the resolution of credit institutions, investment firms and/or Group Entities incorporated in the relevant Member State in effect and applicable in the relevant Member State to the Issuer or other Group Entities, including (but not limited to) any such laws, regulations, rules or requirements that are implemented, adopted or enacted within the context of any European Union directive or regulation of the European Parliament and of the Council establishing a framework for the recovery and resolution of credit institutions and investment firms and/or within the context of a relevant Member State resolution regime or otherwise, pursuant to which liabilities of a credit institution, investment firm and/or any Group Entities can be reduced, cancelled and/or converted into shares or obligations of the obligor or any other person;

"**MREL Disqualification Event**" means that, by reason of a change in MREL Requirements, which was not reasonably foreseeable by the Issuer at the Issue Date of the Notes, all or part of the aggregate outstanding nominal amount of such Series of Senior Notes are or will be excluded fully or partially from eligible liabilities available to meet the MREL Requirements. For the avoidance of doubt: (a) the exclusion of a Series of Senior Notes from the MREL Requirements due to the remaining maturity of such Senior Notes being less than any period prescribed thereunder, does not constitute an MREL Disqualification Event (b) the exclusion of all or some of a Series of Senior Notes from the MREL Requirements due to there being insufficient headroom for such Senior Notes within a prescribed exception to the otherwise applicable general requirements for eligible liabilities does not constitute an MREL Disqualification Event; and (c) any exclusion shall not be 'reasonably foreseeable' by the Issuer at the Issue Date where such exclusion arises as a result of (i) any legislation which gives effect to the EC Proposals differing, as it applies to the Issuer and/or the Group, in any respect from the form of the EC Proposals, or if the EC Proposals have been amended as at the Issue Date of the first Series of the Notes, in the form so amended at such date (including if the EC Proposals are not implemented in full), or (ii) the official interpretation or application of the EC Proposals as applicable to the Issuer and/or the Group (including any interpretation or pronouncement by any relevant court, tribunal or authority) differing in any respect from the official interpretation or application, if any, in place as at the Issue Date of the last Tranche of the Series of Notes;

"**MREL Requirements**" means the laws, regulations, requirements, guidelines, rules, standards and policies relating to minimum requirements for own funds and eligible liabilities and/or loss-absorbing capacity instruments applicable to the Issuer and/or the Group, from time to time, including, without limitation to the generality of the foregoing, any delegated or implementing acts (such as regulatory technical standards) adopted by the European Commission and any regulations, requirements, guidelines, rules, standards and policies relating to minimum requirements for own funds and eligible liabilities and/or loss absorbing capacity instruments adopted by the Republic of Italy, a relevant Competent Authority or a Relevant Resolution Authority from time to time (whether or not such requirements, guidelines or policies are applied generally or specifically to the Issuer and/or the Group), as any of the preceding laws, regulations, requirements, guidelines, rules, standards, policies or interpretations may be amended, supplemented, superseded or replaced from time to time;

"**Regulatory Capital Requirements**" means any requirements contained in the regulations, rules, guidelines and policies of the Competent Authority, or of the European Parliament and Council then in effect in the Republic of Italy, relating to capital adequacy and applicable to the Issuer and/or the Group from time to time (including, but not limited to, as at the Issue Date of the relevant Series of Notes, the rules contained in, or implementing, the CRD IV Package and the BRRD, delegated or implementing acts adopted by the European Commission and guidelines issued by the European Banking Authority);

"**Relevant Resolution Authority**" means the Italian resolution authority, the Single Resolution Board ("**SRB**") established pursuant to the SRM Regulation and/or any other authority entitled to exercise or participate in the exercise of any Resolution Power or Loss Absorption Power from time to time;

"**Resolution Power**" means any statutory write-down, transfer and/or conversion power existing from time to time under any laws regulations, rules or requirements relating to the resolution of the Issuer or any other entities of the Group, including but not limited to any laws, regulations, rules or requirements implementing the BRRD and/or the SRM Regulation; and

"**SRM Regulation**" means Regulation (EU) No 806/2014 of the European Parliament and Council of 15 July 2014 establishing uniform rules and a uniform procedure for the resolution of credit institutions and certain investment firms in the framework of a Single Resolution Mechanism and a Single Resolution Fund and amending Regulation (EU) No 1093/2010, as amended or replaced from time to time.

(f) Early Redemption Amounts

For the purpose of paragraphs (b), (d) and (e) above and Condition 8:

(i) each Note (other than a Zero Coupon Note) will be redeemed at its Early Redemption Amount; and

(ii) each Zero Coupon Note will be redeemed at an amount (the "**Amortised Face Amount**") calculated in accordance with the following formula:

$$\text{Early Redemption Amount} = \text{RP x } (1 + \text{AY})^{y}$$

where:

"**RP**" equals the Reference Price;

"**AY**" equals the Accrual Yield; and

"**y**" is the Day Count Fraction specified in the Form of Final Terms which will be either (i) 30/360 (in which case the numerator will be equal to the number of days (calculated on the basis of a 360-day year consisting of 12 months of 30 days each) from (and including) the Issue Date of the first Tranche of the Notes to (but excluding) the date fixed for redemption of (as the case may be) the date upon which such Note becomes due and repayable and the denominator will be 360) or (ii) Actual/360 (in which case the numerator will be equal to the actual number of days from (and including) the Issue Date of the first Tranche of the Notes to (but excluding) the date fixed for redemption or (as the case may be) the date upon which such Note becomes due and repayable and the denominator will be 360) or (iii) Actual/365 (in which case the numerator will be equal to the actual number of days from (and including) the Issue Date of the first Tranche of the Notes to (but excluding) the date fixed for redemption or (as the case may be) the date upon which such Note becomes due and repayable and the denominator will be 365).

Instalments

Instalment Notes will be redeemed in the Instalment Amounts and on the Instalment Dates specified in the applicable Pricing Supplement. In the case of early redemption, the Early Redemption Amount of Instalment Notes will be determined in the manner specified in the applicable Pricing Supplement.

Partly Paid Notes

Partly Paid Notes will be redeemed, whether at maturity, early redemption or otherwise, in accordance with the provisions of this Condition and the applicable Pricing Supplement.

(g) Purchases

Subject to Condition 5(i) in respect of Senior Notes and Condition 5(h) in respect of Subordinated Notes, the Issuer or any Subsidiary (as defined below) of the Issuer may purchase Notes (provided that, in the case of definitive Notes, all unmatured Receipts, Coupons and Talons appertaining thereto are purchased therewith) at any price in the open market or otherwise. All Notes so purchased will be surrendered to a Paying Agent for cancellation. References in the Conditions to the purchase of Notes shall not include the purchase of Notes by the Issuer or any of their Subsidiaries in the ordinary course of business of dealing in securities, as nominee or as a bona fide investment.

"**Subsidiary**" means any entity which is a subsidiary within the meaning of Section 1159 of the Companies Act 2006.

(h) Conditions to Early Redemption and Purchase of Subordinated Notes

Any redemption or purchase of Subordinated Notes in accordance with Conditions 5(b), (c), (d) or (g) is subject to:

(i) the Issuer giving notice to the Competent Authority and the Competent Authority granting permission to redeem or purchase the relevant Subordinated Notes (in each case to the extent, and in the manner, required by the Regulatory Capital Requirements (as defined in Condition 5(e), including Articles 77(b) and 78 of CRR); and

(ii) compliance by the Issuer with any alternative or additional pre-conditions to redemption or purchase, as applicable, set out in the Regulatory Capital Requirements for the time being.

(i) Conditions to Redemption and Purchase of Senior Notes

Any redemption or purchase of Senior Notes in accordance with Conditions 5(b), (c), (e) or (g) is subject to compliance by the Issuer with any conditions to such redemption or repurchase prescribed by the Regulatory Capital Requirements at the relevant time (including any requirements (such as the prior permission of the Competent Authority) applicable to such redemption or repurchase due to the qualification of such Senior Notes at such time as eligible liabilities available to meet the MREL Requirements).

(j) Cancellation

All Notes which are redeemed will forthwith be cancelled (together with all unmatured Receipts, Coupons and Talons attached thereto or surrendered therewith at the time of redemption). All Notes so cancelled and the Notes purchased and cancelled pursuant to paragraph (g) above (together with all unmatured Receipts, Coupons and Talons cancelled therewith) shall be forwarded to the Agent and cannot be reissued or resold.

(k) Late payment on Zero Coupon Notes

If the amount payable in respect of any Zero Coupon Note upon redemption of such Zero Coupon Note pursuant to paragraph (a), (b), (c), (d) or (e) above or upon its becoming due and repayable as provided in Condition 8 is improperly withheld or refused, the amount due and repayable in respect of such Zero Coupon Note shall be the amount calculated as provided in paragraph (f)(ii) above as though the references therein to the date fixed for the redemption or the date upon which such Zero Coupon Note becomes due and payable were replaced by references to the date which is the earlier of:

(i) the date on which all amounts due in respect of such Zero Coupon Note have been paid; and

(ii) five days after the date on which the full amount of the moneys payable in respect of such Zero

Coupon Notes has been received by the Agent and notice to that effect has been given to the Noteholders in accordance with Condition 12.

6. Taxation

All payments of principal and interest in respect of the Notes, Receipts and Coupons by or on behalf of the Issuer will be made without withholding or deduction for or on account of any present or future taxes or duties of whatever nature imposed or levied by or on behalf of any Tax Jurisdiction unless such withholding or deduction is required by law. In such event, the Issuer will pay such additional amounts in respect of principal and interest in the case of Senior Notes, or interest only in the case of Subordinated Notes, as shall be necessary in order that the net amounts received by the holders of the Notes, Receipts or Coupons after such withholding or deduction shall equal the respective amounts of principal and interest which would otherwise have been receivable in respect of the Notes, Receipts or Coupons, as the case may be, in the absence of such withholding or deduction; except that no such additional amounts shall be payable:

(a) with respect to any Notes, Receipts or Coupons for or on account of *imposta sostitutiva* (at the then applicable rate of tax) pursuant to Italian Legislative Decree No. 239 of 1 April 1996 and in all circumstances in which the procedures set forth in Legislative Decree No. 239 have not been met or complied with except where such procedures have not been met or complied with due to the actions of omissions of the Issuer or its agents;

(b) with respect to any Note, Receipt or Coupon presented for payment:

    (i) in the jurisdiction of incorporation of the Issuer; or

    (ii) by or on behalf of a holder who is liable for such taxes or duties in respect of such Note, Receipt or Coupon by reason of his having some connection with a Tax Jurisdiction other than the mere holding of such Note, Receipt or Coupon; or

    (iii) by or on behalf of a holder who is entitled to avoid such withholding or deduction in respect of such Note, Receipt or Coupon by making a declaration of non-residence or other similar claim for exemption to the relevant taxing authority; or

    (iv) more than 30 days after the Relevant Date (as defined below) except to the extent that the holder thereof would have been entitled to an additional amount on presenting the same for payment on such thirtieth day assuming that day to have been a Payment Day (as defined in Condition 4(g)); or

(c) in respect of any Note where such withholding or deduction is required pursuant to Law Decree No. 512 of 30 September 1983.

As used herein:

(i) "**Tax Jurisdiction**" means the Republic of Italy ("**Italy**") or any political subdivision of any authority thereof or therein having power to tax; and

(ii) "**Relevant Date**" means the date on which such payment first becomes due, except that, if the full amount of the moneys payable has not been duly received by the Agent on or prior to such due date, it means the date on which, the full amount of such moneys having been so received, notice to that effect is duly given to the Noteholders in accordance with Condition 12.

7. Prescription

The Notes, Receipts and Coupons will become void unless claims in respect of principal and/or interest are made within a period of 10 years (in the case of principal) and five years (in the case of interest) after the Relevant Date (as defined in Condition 6) therefor.

There shall not be included in any Coupon sheet issued on exchange of a Talon any Coupon the claim for payment in respect of which would be void pursuant to this Condition or Condition 4(b) or any Talon which would be void pursuant to Condition 4(b).

8. Events of Default

(a) Events of Default relating to Senior Notes

This Condition 8(a) applies only to Senior Notes.

If any one or more of the following events (each an "**Event of Default**") shall occur with respect to any Senior Note:

(i) the Issuer shall be liquidated (including becoming subject to "*Liquidazione coatta amministrativa*" as defined in the Italian Consolidated Banking Act (as amended from time to time)); or

(ii) the Issuer shall be insolvent,

then any holder of a Senior Note may, by written notice to the Issuer at the specified office of the Agent, effective upon the date of receipt thereof by the Agent, declare any Senior Notes held by the holder to be forthwith due and payable whereupon the same shall become forthwith due and payable at its Early Redemption Amount (as described in Condition 5(f)), together with accrued interest (if any) to the date of repayment, without presentment, demand, protest or other notice of any kind.

(b) Event of Default relating to Subordinated Notes

This Condition 8(b) applies only to Subordinated Notes.

If any one or more of the following Events of Default shall occur with respect to any Subordinated Note:

(i) the Issuer shall be liquidated (including becoming subject to "*Liquidazione coatta amministrativa*" as defined in the Italian Consolidated Banking Act (as amended from time to time)); or

(ii) the Issuer shall be insolvent,

then any holder of a Subordinated Note may, by written notice to the Issuer at the specified office of the Agent, effective upon the date of receipt thereof by the Agent, declare any such Subordinated Notes held by the holder to be forthwith due and payable whereupon the same shall become forthwith due and payable at its Early Redemption Amount (as described in Condition 5(f)), together with accrued interest (if any) to the date of repayment, without presentment, demand, protest or other notice of any kind.

9. Replacement of Notes, Receipts, Coupons and Talons

Should any Note, Receipt, Coupon or Talon be lost, stolen, mutilated, defaced or destroyed, it may be replaced at the specified office of the Agent upon payment by the claimant of such costs and expenses

as may be incurred in connection therewith and on such terms as to evidence and indemnity as the Issuer may reasonably require. Mutilated or defaced Notes, Receipts, Coupons or Talons must be surrendered before replacements will be issued.

10. Paying Agents

The names of the initial Paying Agents and their initial specified offices are set out below. If any additional Paying Agents are appointed in connection with any Series, the names of such Paying Agents will be specified in Part B of the Form of Final Terms.

The Issuer is entitled to vary or terminate the appointment of any Paying Agent and/or appoint additional or other Paying Agents and/or approve any change in the specified office through which any Paying Agent acts, provided that:

(a) there will at all times be an Agent; and

(b) so long as the Notes are listed on any stock exchange (or any other relevant authority), there will at all times be a Paying Agent with a specified office in such place as may be required by the rules and regulations of the relevant stock exchange (or any other relevant authority).

In addition, the Issuer shall forthwith appoint a Paying Agent having a specified office in New York City in the circumstances described in Condition 4(f). Notice of any variation, termination, appointment or change in Paying Agents will be given to the Noteholders promptly by the Issuer in accordance with Condition 12.

In acting under the Agency Agreement, the Paying Agents act solely as agents of the Issuer and do not assume any obligation to, or relationship of agency or trust with, any Noteholders, Receiptholders or Couponholders. The Agency Agreement contains provisions permitting any entity into which any Paying Agent is merged or converted or with which it is consolidated or to which it transfers all or substantially all of its assets to become the successor paying agent.

11. Exchange of Talons

On and after the Interest Payment Date on which the final Coupon comprised in any Coupon sheet matures, the Talon (if any) forming part of such Coupon sheet may be surrendered at the specified office of the Agent or any other Paying Agent in exchange for a further Coupon sheet including (if such further Coupon sheet does not include Coupons to (and including) the final date for the payment of interest due in respect of the Note to which it appertains) a further Talon, subject to the provisions of Condition 7.

12. Notices

All notices regarding the Notes will be deemed to be validly given if published (i) in a leading English language daily newspaper of general circulation in London, and (ii) if and for so long as the Notes are admitted to trading on, and listed on, the Official List of the Luxembourg Stock Exchange, in a daily newspaper of general circulation in Luxembourg and/or on the Luxembourg Stock Exchange's website (www.bourse.lu). It is expected that any such publication in a newspaper will be made in the *Financial Times* in London and the *Luxemburger Wort* or *Tageblatt* in Luxembourg. The Issuer shall also ensure that notices are duly published in a manner which complies with the rules and regulations of any stock exchange (or any other relevant authority) on which the Notes are for the time being listed or by which they have been admitted to trading including publication on the website of the relevant stock exchange or relevant authority if required by those rules. Any such notice will be deemed to have been given on the date of the first publication or, where required to be published in more than one newspaper, on the date of the first publication in all required newspapers.

Until such time as any definitive Notes are issued, there may, so long as any Global Notes representing the Notes are held in their entirety on behalf of Euroclear and/or Clearstream, Luxembourg, be substituted for such publication in such newspaper(s) or such websites the delivery of the relevant notice to Euroclear and/or Clearstream, Luxembourg for communication by them to the holders of the Notes and, in addition, for so long as any Notes are listed on a stock exchange or are admitted to trading by another relevant authority and the rules of that stock exchange or authority so require, such notice will be published on the website of the relevant stock exchange or relevant authority and/or in a daily newspaper of general circulation in the place or places required by the rules of that stock exchange or authority. Any such notice shall be deemed to have been given to the holders of the Notes on the second day after the day on which the said notice was given to Euroclear and/or Clearstream, Luxembourg.

Notices to be given by any Noteholder shall be in writing and given by lodging the same, together (in the case of any Note in definitive form) with the relative Note or Notes, with the Agent. Whilst any of the Notes are represented by a Global Note, such notice may be given by any holder of a Note to the Agent through Euroclear and/or Clearstream, Luxembourg, as the case may be, in such manner as the Agent and Euroclear and/or Clearstream, Luxembourg, as the case may be, may approve for this purpose.

13. Meetings of Noteholders, Modification and Waiver

The Agency Agreement contains provisions for convening meetings of the Noteholders to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution of a modification of the Notes, the Receipts, the Coupons or any of the provisions of the Agency Agreement. Such a meeting may be convened by the Issuer and shall be convened by the Issuer if required in writing by Noteholders holding not less than ten per cent. in nominal amount of the Notes for the time being remaining outstanding. The quorum at any such meeting for passing an Extraordinary Resolution is one or more persons holding or representing not less than 50 per cent. in nominal amount of the Notes for the time being outstanding, or at any adjourned meeting one or more persons being or representing Noteholders whatever the nominal amount of the Notes so held or represented, except that at any meeting the business of which includes the modification of certain provisions of the Notes, the Receipts or the Coupons (including modifying the date of maturity of the Notes or any date for payment of interest thereon, reducing or cancelling the amount of principal or the rate of interest payable in respect of the Notes or altering the currency of payment of the Notes, the Receipts or the Coupons), the quorum shall be one or more persons holding or representing not less than three-quarters in nominal amount of the Notes for the time being outstanding, or at any adjourned such meeting one or more persons holding or representing not less than one half in nominal amount of the Notes for the time being outstanding. An Extraordinary Resolution passed at any meeting of the Noteholders shall be binding on all the Noteholders, whether or not they are present at the meeting, and on all Receiptholders and Couponholders.

The Agent and the Issuer may agree, without the consent of the Noteholders, Receiptholders or Couponholders, to:

(a) any modification (except as mentioned above) of the Notes, the Receipts, the Coupons or the Agency Agreement which is not prejudicial to the interests of the Noteholders; or

(b) any modification of the Notes, the Receipts, the Coupons or the Agency Agreement which is of a formal, minor or technical nature or is made to correct a manifest error or to comply with mandatory provisions of law.

Any such modification shall be binding on the Noteholders, the Receiptholders and the Couponholders and any such modification shall be notified to the Noteholders in accordance with Condition 12 as soon as practicable thereafter.

14. Further Issues

The Issuer shall be at liberty from time to time without the consent of the Noteholders, the Receiptholders or the Couponholders to create and issue further notes having terms and conditions the same as the Notes or the same in all respects save for the amount and date of the first payment of interest thereon and the date from which interest starts to accrue and so that the same shall be consolidated and form a single Series with the outstanding Notes.

15. Contracts (Rights of Third Parties) Act 1999

No rights are conferred on any person under the Contracts (Rights of Third Parties) Act 1999 to enforce any term of this Note, but this does not affect any right or remedy of any person which exists or is available apart from that Act.

16. Governing Law and Submission to Jurisdiction

(a) Governing law

The Agency Agreement, the Deed of Covenant, the Notes, the Receipts and the Coupons and any non-contractual obligations arising out of or in connection with any of the above shall be governed by, and construed in accordance with, English law, except that Condition 2(b) relating to the Subordinated Notes is governed by, and will be construed in accordance with, Italian law.

(b) Submission to jurisdiction

(i) Subject to Condition 16(b)(iii) below, the English courts have jurisdiction to settle any dispute arising out of or in connection with the Notes, the Receipts and/or the Coupons, including any dispute as to their existence, validity, interpretation, performance, breach or termination or the consequences of their nullity and any dispute relating to any non-contractual obligations arising out of or in connection with the Notes, the Receipts and/or the Coupons (a "**Dispute**") and accordingly the Issuer and any Noteholders, Receiptholders or Couponholders in relation to any Dispute submits to the exclusive jurisdiction of the English courts.

(ii) For the purposes of this Condition 16(b), the Issuer hereby irrevocably waives any objection to the English courts on the grounds that they are an inconvenient or inappropriate forum to settle any Dispute.

(iii) To the extent allowed by law, the Noteholders, the Receiptholders and the Couponholders may, in respect of any Dispute or Disputes, take (i) proceedings in any other court with jurisdiction; and (ii) concurrent proceedings in any number of jurisdictions.

(c) Appointment of Process Agent

The Issuer irrevocably appoints Wilmington Trust SP Services (London) Limited at Third Floor, 1 King's Arms Yard, London EC2R 7AF as its agent for service of process, in any proceedings before the English courts in relation to any Dispute, and agrees that, in the event of such agent being unable or unwilling for any reason so to act, it will immediately appoint another person as its agent for service of process in England in respect of any Dispute. The Issuer agrees that failure by a process agent to notify it of any process will not invalidate service. Nothing herein shall affect the right to serve process in any other manner permitted by law.

(d) Waiver of trial by jury

Without prejudice to condition 16(b), the Issuer waives any right it may have to a jury trial of any claim or cause of action in connection with the Notes, the Receipts and the Coupons. These conditions may be filed as a written consent to a bench trial.

(e) Other documents

The Issuer have in the Agency Agreement and the Deed of Covenant submitted to the jurisdiction of the English courts and appointed an agent for service of process in terms substantially similar to those set out above.

17. Statutory Loss Absorption Powers

By the acquisition of the Notes, each Noteholder acknowledges and agrees to be bound by the exercise of any Loss Absorption Power by the Relevant Resolution Authority that may result in the write-down or cancellation of all or a portion of the principal amount of, or distributions on, the Notes and/or the conversion of all or a portion of the principal amount of, or distributions on, the Notes into ordinary shares or other obligations of the Issuer or another person, including by means of a variation to the terms of the Notes to give effect to the exercise by the Relevant Resolution Authority of such Loss Absorption Power. Each Noteholder further acknowledges and agrees that the exercise of such Loss Absorption Power by the Relevant Resolution Authority may result in any interest accrued on the Notes remaining unpaid and/or being cancelled. Each Noteholder further agrees that the rights of the Noteholders are subject to, and will be varied if necessary so as to give effect to, the exercise of any Loss Absorption Power by the Relevant Resolution Authority.

Upon the Issuer being informed and notified by the Relevant Resolution Authority of the actual exercise of the date from which the Loss Absorption Power is effective with respect to the Notes, the Issuer shall notify the Noteholders without delay. Any delay or failure by the Issuer to give notice shall not affect the validity and enforceability of the Loss Absorption Power nor the effects on the Notes described in this clause.

The exercise of the Loss Absorption Power by the Relevant Resolution Authority with respect to the Notes shall not constitute an Event of Default and the terms and conditions of the Notes shall continue to apply in relation to the residual principal amount of, or outstanding amount payable with respect to, the Notes subject to any modification of the amount of distributions payable to reflect the reduction of the principal amount, and any further modification of the terms that the Relevant Resolution Authority may decide in accordance with applicable laws and regulations relating to the resolution of credit institutions, investment firms and/or Group Entities incorporated in the relevant Member State.

Each Noteholder also acknowledges and agrees that this provision is exhaustive on the matters described herein to the exclusion of any other agreements, arrangements or understandings relating to the application of any Loss Absorption Power to the Notes.

As used in these Conditions:

"**BRRD**" means Directive 2014/59/EU of the European Parliament and of the Council of 15 May 2014 establishing a framework for the recovery and resolution of credit institutions and investment firms, as amended or replaced from time to time;

"**Group Entity**" means the Issuer or any legal person that is part of the Group;

"**Loss Absorption Power**" means any statutory write-down and/or conversion power existing from time to time under any laws, regulations, rules or requirements relating to the resolution of credit institutions, investment firms and/or Group Entities incorporated in the relevant Member State in effect and applicable in the relevant Member State to the Issuer or other Group Entities, including

(but not limited to) any such laws, regulations, rules or requirements that are implemented, adopted or enacted within the context of any European Union directive or regulation of the European Parliament and of the Council establishing a framework for the recovery and resolution of credit institutions and investment firms and/or within the context of a relevant Member State resolution regime or otherwise, pursuant to which liabilities of a credit institution, investment firm and/or any Group Entities can be reduced, cancelled and/or converted into shares or obligations of the obligor or any other person;

"**Relevant Resolution Authority**" means the Italian resolution authority, the Single Resolution Board ("**SRB**") established pursuant to the SRM Regulation and/or any other authority entitled to exercise or participate in the exercise of any Resolution Power or Loss Absorption Power from time to time;

"**Resolution Power**" means any statutory write-down, transfer and/or conversion power existing from time to time under any laws regulations, rules or requirements relating to the resolution of the Issuer or any other entities of the Group, including but not limited to any laws, regulations, rules or requirements implementing the BRRD and/or the SRM Regulation; and

"**SRM Regulation"** means Regulation (EU) No 806/2014 of the European Parliament and Council of 15 July 2014 establishing uniform rules and a uniform procedure for the resolution of credit institutions and certain investment firms in the framework of a Single Resolution Mechanism and a Single Resolution Fund and amending Regulation (EU) No 1093/2010, as amended or replaced from time to time.

USE OF PROCEEDS

The net proceeds from each issue of Notes will be applied by the Issuer for its general corporate purposes, which include making a profit, and for general capital requirements. If there is a particular identified use of proceeds, this will be stated in the Form of Final Terms.

BANCA MONTE DEI PASCHI DI SIENA S.P.A.

1. General

Banca Monte dei Paschi di Siena S.p.A. ("**BMPS**" or the "**Bank**") was incorporated on 14 August 1995 as a joint stock company (*Società per Azioni*) under Italian legislation. On 23 August 1995 BMPS was registered with the Bank of Italy's Register (No. 5274) and with the Companies Register (No. 00884060526). BMPS has its registered office in Piazza Salimbeni 3, 53100, Siena, Italy (telephone number: +39 0577 294 111). BMPS' duration is currently limited to 31 December 2100 though this may be extended by shareholders' resolution.

BMPS's corporate purpose, as set out under article 3 of its by-laws, is as follows: "*The purpose of BMPS is to collect and maintain savings and issue loans and credit, in various forms in Italy and abroad, including any related activity permitted to lending institutions by current regulations. BMPS can carry out, in accordance with the laws and regulations in force, all permitted banking and financial activities and any other transaction which is instrumental, or in any case linked, to the achievement of the company's purpose.*"

BMPS is the parent company of an Italian banking group operating throughout Italy and in major international financial centres. The Monte dei Paschi Group (the "**BMPS Group**" or the "**Group**") offers a wide range of financial services and products to private individuals and corporations. The products and services include ordinary and specialised deposit-taking and lending, including leasing and factoring; payment services (home banking, cash management, credit or debit cards and treasury services for public entities); asset management (through joint venture), brokerage services and corporate finance (project finance, merchant banking, financial consulting).

Pursuant to article 2497 and subsequent articles of the Italian Civil Code, the role of the parent company is carried out by BMPS which directs and coordinates the activities of its direct and indirect subsidiaries, including companies that, under current regulations, do not belong to the BMPS Group. Founded in 1472 as a public pawn broking establishment (*Monte di Pietà*), BMPS has been a member of FTSE MIB40 since September 1999 with a share capital of Euro 15,692,799,350.97 as at the date of this Base Prospectus.

2. History

BMPS, which is believed to be the oldest bank in the world, has been in continuous operation since 1472, when the General Council of the Republic of Siena approved its original charter. The Bank, then known as "Monte di Pietà", was originally established by the Republic of Siena for the purpose of providing a controlled source of lending for the local community and to fight usury. In 1624, the Bank changed its name to "Monte dei Paschi di Siena" after the paschi, the grazing fields owned by the Grand Duchy of Tuscany, which generated income that was pledged to support the Bank's capital. Following the unification of Italy, the Bank extended its activities beyond the immediate outskirts of Siena. However, significant expansion of the Bank's activities occurred only after World War I, both geographically (with the opening of approximately 100 additional branches) and in terms of activities undertaken (with the commencement of various tax collection activities on behalf of national and regional governments). In 1936, the Bank was declared a public credit institution (*Istituto di Credito di Diritto Pubblico*) organised under a new charter, which, although modified during this period, remained in force until 1995.

In 1995, the Bank was reorganised in accordance with the Amato Law and was incorporated as a *Società per Azioni* or joint stock company owned by Monte dei Paschi di Siena — Istituto di Diritto Pubblico (the "**Foundation**").

3. Major Events

Recent developments

2000-2007

In this period there has been an intense phase of territorial and organisational expansion and the main events are the following:

- acquisition of equity interests in some regional banks having strong roots in the territory, among which Banca 121 S.p.A. (formerly Banca del Salento S.p.A.) and Banca Agricola Mantovana S.p.A., subsequently merged by incorporation into BMPS, effective as of 21 September 2008;
- enhancement of the operational structures in strategic market sectors, through the development of product companies (Consum.it S.p.A., MPS Leasing & Factoring S.p.A., MPS Capital Services Banca per le Imprese S.p.A. ("**MPSCS**"), MPS Asset Management S.p.A. and MPS Banca Personale S.p.A.);
- development of business productivity, with the goal of improving the level of assistance and consultancy to savers and enterprises, through service models specialised by customer segment;
- consolidation of the business in some strategic markets, such as private banking and pension saving;
- implementation of a wide plan for the opening of new branches of the Group;
- strengthening the bancassurance and supplementary pension sectors through a strategic alliance entered into with the group led by AXA S.A.; and
- acquisition of 59 per cent. stake in Biverbanca S.p.A. from Intesa Sanpaolo S.p.A.

On 14 June 2003 – as part of the programme aimed at complying with the requirements for the transfer of control over BMPS by the Foundation, and in accordance with the provisions set out in Legislative Decree No. 153 of 17 May 1999, pursuant to which foundations that proceeded with the contribution of banking enterprises may not hold the majority of voting rights on ordinary capital in such transferee companies (except, on a temporary basis, until 15 June 2003) – BMPS' extraordinary shareholders' meeting resolved the conversion of no. 565,939,729 ordinary shares held by the Foundation, equal to 18.77 per cent. of BMPS share capital, into a corresponding number of preferred shares, with consequent reduction, as at such date, in Foundation's stake from 58.575 per cent. to 49 per cent. of BMPS ordinary capital.

2008-2012

<u>The acquisition of Banca Antonveneta and the consequent reorganisation</u>

The transactions entered into from 2008 to 2012 aimed substantially at (i) evolving the Group's organisational and distributional structure, (ii) enhancing the new production structure, (iii) specializing the product/service offer to customers, (iv) improving the operational efficiency, and (v) optimizing the capital.

On 30 May 2008, further to the authorisation by the Bank of Italy (released on 17 March 2008), the Issuer completed the acquisition of Banca Antonveneta from Banco Santander S.A. for a consideration equal to Euro 9 billion, plus Euro 230 million as interests on such amount.

The acquisition of Banca Antonveneta was funded by way of equity and debt instruments as well as through a bridge loan. In particular, the funding plan of the transaction was structured as follows:

- a capital increase pursuant to article 2441, subsection 1, of the Italian Civil Code (the final terms of which have been approved by BMPS' board of directors on 24 April 2008) which ended up with the subscription of new ordinary, saving and preferred shares for an overall value, inclusive of share premium, equal to Euro 4,974 million;
- a capital increase with exclusion of option rights which has been carried out by issuing shares, inclusive of share premium, offered in subscription to J.P. Morgan Securities Ltd

(subsequently renamed J.P. Morgan Securities plc) ("**J.P. Morgan**") for an overall value of Euro 950 million (pursuant to a resolution of BMPS' board of directors dated 10 April 2008). On 16 April 2008, BMPS purchased from J.P. Morgan a usufruct right on such shares (pursuant to article 2352 of the Italian Civil Code) for a term of thirty years against payment of an annual fee which is conditional upon the existence of distributable profits, the payment of cash dividends out of distributable profits and for an amount not exceeding the difference between distributable profits and paid dividends. The voting right attached to the shares, which the usufructuary is entitled to, is suspended until the usufruct right established in favour of BMPS is in force and there is no right to dividend thereon (for more information on the transaction, please see paragraph "*FRESH 2008*" below);

- a public offer of the subordinated notes named "*Banca Monte dei Paschi di Siena S.p.A. Tasso Variabile Subordinato Upper Tier II 2008-2018*". The bonds were issued on 15 May 2008 for a nominal amount of Euro 2.161 million; and
- a bridge loan entered into on 24 April 2008 with a pool of banks for a maximum amount of Euro 1,950 million, which was redeemed in 2009 by assigning non-strategic assets.

The deed for the merger by incorporation of Banca Antonveneta into BMPS was entered into on 22 December 2008, civilly effective as of 31 December 2008 and accounting/tax effective as of 1 June 2008. At the same time, a business unit for a value of Euro 3.2 billion, inclusive of, *inter alia*, more than 400 branches, was assigned to a newly established company named "Banca Antonveneta S.p.A." ("**New Banca Antonveneta**"), fully controlled by BMPS.

FRESH 2008

In April 2008, the Bank increased its share capital by issuing 295,236,070 ordinary shares (the "**FRESH 2008 Shares**") subscribed by J.P. Morgan and establishing a thirty-year usufruct right over the securities in favour of the Bank.

The structure of the transaction is essentially the following:

- on 10 April 2008, the Bank's board of directors (on the basis of the mandate given by the shareholders' meeting on 6 March 2008) resolved a capital increase with exclusion of option rights pursuant to article 2441, subsection 5, of the Italian Civil Code, to be carried out by issuing 295,236,070 ordinary shares, inclusive of the share premium, to be subscribed by a company of the group led by J.P. Morgan Chase & Co.;
- the shares were subscribed for by J.P. Morgan at the price of Euro 3.218 each, for an aggregate amount of Euro 950 million. The issuance of the floating rate equity-linked subordinated hybrid preferred securities (the "**FRESH 2008**") was carried out by The Bank of New York (Luxembourg) S.A. on a fiduciary basis pursuant to Luxembourg law;
- on 16 April 2008, the Bank and J.P. Morgan, pursuant to article 2352 of the Italian Civil Code, entered into a thirty-year usufruct agreement, on the basis of which J.P. Morgan retained the bare ownership of the shares, while the Bank held the usufruct thereon, subject to the possibility of being early terminated in a number of circumstances (e.g.: conversion of the instruments, public tender offer on BMPS shares). Until the usufruct is in force, the voting right relating to the FRESH 2008 Shares is suspended and there is no entitlement to dividends whilst any option rights pertain to J.P. Morgan., J.P. Morgan is bound to transfer such option rights to The Bank of New York (Luxembourg) S.A. on the terms provided for by the documents governing the FRESH 2008 securities for the purpose of transferring such rights to the holders of the FRESH 2008, in accordance with the terms and conditions of the securities;
- the Bank and J.P. Morgan also entered into a swap agreement with a term equal to the term of BMPS, pursuant to which (i) J.P. Morgan has undertaken to pay to BMPS, upon conversion of the FRESH 2008, an amount of approximately Euro 50 million (equal to the difference between the nominal value of the FRESH 2008 – Euro 1 billion – and the value of the relevant capital increase – Euro 950 million); and (ii) BMPS has undertaken to pay annually J.P. Morgan. Such payments shall be equal to the average market value (as recorded during the year prior to the relevant payment) of no. 295,236,070 BMPS shares multiplied by a rate,

such rate being determined as the higher between 95 basis points (0.95 per cent.) and the value of the five-year senior credit default swap of J.P. Morgan itself, as observed during the quarterly period prior to the relevant payment.

The main features of the FRESH 2008 securities are as follows:

- the term is set until the term of the Issuer (currently 31 December 2100);
- the securities are convertible into BMPS shares on the basis of a conversion ratio set at the time of the issuance (by a 29,523,607 BMPS shares for each FRESH 2008 security, subject to adjustment in the ratio of (i) 1/100 as a result of the grouping together of BMPS shares carried out on 5 May 2014, (ii) 1/20 as a result of the grouping together of BMPS shares carried out on 18 May 2015 and (iii) 1/100 as a result of the grouping together of BMPS resolved on 24 November 2016);
- the conversion may take place, at any time, upon investor request, starting from 27 May 2008;
- the conversion is automatic in certain circumstances, among which:
  - if the Bank's overall capital requirement (either individual or consolidated) falls below 5 per cent. (or any other threshold provided for by the banking supervisory rules for the purpose of absorbing losses in innovative capital instruments);
  - if the share market price exceeds (for 20 days out of 30 consecutive open exchange days) the threshold price of Euro 1,016,136, equal to 150 per cent. of the conversion price (Euro 677,424), which values are adjusted as a result of the reverse stock split of BMPS shares carried out on 5 May 2014, 18 May 2015 and 28 November 2016;
  - in the event that the Bank defaults the payment obligations undertaken pursuant to the abovementioned usufruct agreement and swap agreement;
  - in the event of Bank's liquidation;
  - in certain cases of public tender offer on any and all BMPS shares; and
  - upon the maturity of the securities.
- the remuneration of the securities is substantially equal to the payments that J.P. Morgan receives as consideration for the usufruct, and equal to the three-month Euribor rate plus 425 basis points.

The payment in favour of J.P. Morgan of the fee relating to the usufruct agreement – as amended on 1 October 2008, 16 October 2008 and 31 January 2012 – shall be made on the relevant payment dates (16 January, 16 April, 16 July and 16 October in each year) if, and to the extent that:

- on the basis of the individual financial statements approved prior to such date, the Bank has realised distributable profits; and
- on the basis of such financial statements, cash dividends have been paid to the shareholders.

Upon satisfaction of both the above conditions in relation to a financial year, the fee payable for all the four payment dates following the shareholders' meeting which approved the relevant financial statements may be paid only in an amount equal to the difference between distributable profits resulting from such financial statements and the overall amount of cash dividends paid to the shareholders.

Furthermore, the Foundation entered into, on 14 April 2008, total return swaps (so called "**TROR**"), having as underlying the FRESH 2008, with the following counterparties: (i) Credit Suisse International (underlying FRESH 2008 securities for a nominal value of Euro 196 million); (ii) Mediobanca – Banca di Credito Finanziario S.p.A. ("**Mediobanca**") (underlying FRESH 2008 securities for a nominal value of Euro 196 million); and (iii) Banca Leonardo S.p.A., (underlying FRESH 2008 securities for a nominal value of Euro 98 million). In addition, on 23 June 2012, as a result of the termination of the "TROR" agreements entered into with Credit Suisse International (which in 2010 took also over the financial positions of Banca Leonardo S.p.A.) and Mediobanca, the Foundation was received the FRESH 2008 securities for an overall nominal value of Euro 490 million. On 4 December 2013, the Foundation informed that, in the course of the last two weeks of

November 2013, it has progressively assigned the entire amount of FRESH 2008 securities held for a net overall value of Euro 95.2 million.

On 10 October 2016, the Bank of New York Mellon (Luxembourg) withdrew from the role of fiduciary and Mitsubishi UFJ Investor Services & Banking (Luxembourg) S.A. was appointed for the same role.

Restructuring of the "Santorini" transaction

In December 2008, BMPS and Deutsche Bank AG ("**Deutsche Bank**") entered into three separate total return swap transactions on BTP for an overall nominal value of Euro 2,000 million, bearing a coupon value of 4.50 per cent. and with a maturity of 2018/2020; these transactions have been then replaced with a BTP bearing a 6 per cent. coupon and having maturity in May 2031. The term of the agreements was equal to the maturity date of the securities. Such transactions were restructured and amended several times between 2009 and 2011. On 19 December 2013, a settlement agreement was entered in respect of such transaction, providing for its early closure, and, as at that time, the agreements provided for the following obligations:

- BMPS to deliver as at the effective date to Deutsche Bank the BTPs and to receive, as consideration, the relevant market value as at the same date (Euro 2,195 million);
- as at each BTP ex-dividend date, BMPS to pay to Deutsche Bank a variable yield equal to the six-month EONIA Index Swap rate plus a spread of 2.82 per cent. and to receive as consideration from Deutsche Bank an amount equal to the BTP coupons, to the extent these have been actually collected from the Italian government (as issuer of the BTP) on the relevant maturities;
- as at the maturity date, Deutsche Bank to pay to BMPS an amount equal to the redemption amount of the BTPs (as effectively collected) and BMPS to pay to Deutsche Bank an amount equal to the nominal value of such BTPs; and
- upon the occurrence of a credit event relating to the Republic of Italy (i.e. events which would have entailed the default of the Republic of Italy), the agreement to be early terminated. In such event, Deutsche Bank shall be entitled to return to BMPS any security issued by the Republic of Italy (and not specifically the BTPs of the total return swaps), or the equivalent value in cash, and BMPS shall pay the nominal value of the security.

For the purpose of reducing the investment rate risk, in July 2009 the Bank negotiated a "forward start" interest rate swap (with deferred value date) to 2011 for a notional amount of Euro 2 billion and maturity on 1 May 2031. Pursuant to such agreement, with effect from the deferred value date:

- BMPS shall pay to Deutsche Bank a 6 per cent. fixed rate interest; and
- Deutsche Bank shall pay to BMPS an amount calculated on the basis of the six-month Euribor rate plus a 1.485 per cent. spread.

Such transaction was subject to daily collateralization or marginalization obligation.

For the purpose of managing the overall rate risk of the banking book, the interest rate swap agreement was early terminated in part and, as at the date of the settlement agreement with Deutsche Bank (i.e. 19 December 2013), the outstanding nominal amount was equal to Euro 1.7 billion.

Such transaction was settled in December 2013 (see also paragraph "*"Santorini" Transaction – settlement agreement*").

Restructuring of the "Alexandria" notes

During the financial year ended on 31 December 2009, the Bank put in place with Nomura International Plc ("**Nomura**"), as counterparty, a transaction called "Alexandria".

Such transaction had the following contractual features:

- the securities were BTPs for a nominal value of Euro 3,050 million, bearing a 5 per cent. coupon and with maturity in 2034; the term of the agreement was equal to the maturity date of the securities;

- BMPS purchased the securities from Nomura by way of forward agreements was entered into in the period from 3 August 2009 and until 18 September 2009; the settlement date was on 28 September 2009;
- the securities purchased had been fully hedged for interest rate fluctuations by entering into asset swap agreements with Nomura; on the basis of these agreements, BMPS shall pay to the counterparty a 5 per cent. fixed interest rate (equal to the BTPs coupon rate) on a nominal amount of Euro 3,050 million, and shall receive a payment calculated on the basis of the three-month Euribor plus an average 98 basis points spread;
- BMPS entered into a long-term repo transaction with Nomura where the underlying asset was the BTP 5 per cent. 2034, having the same nominal amount and same maturity; on the basis of the agreement, BMPS had assigned the securities to Nomura on a spot basis and received as consideration an amount equal to Euro 3,102 million, inclusive of accrued interests. As at each ex-dividend date, BMPS received from Nomura a 5 per cent. coupon (calculated on the nominal value) and paid an amount determined on the basis of the three-month Euribor plus a 59.15 basis points spread on a quarterly basis, and calculated on the cash amount received;
- at maturity, provided that no default of the Republic of Italy has occurred, the transaction had to be settled as a normal repo transaction and, accordingly, by way of delivery of the security versus payment of a cash consideration;
- upon the occurrence of a credit event with respect to the Republic of Italy (i.e. failure to pay, moratorium, refusal to fulfil or restructuring of the Republic of Italy), the agreement would have been early terminated. In this circumstances, Nomura would have been entitled to return to BMPS any security issued by the Republic of Italy, (and not specifically the BTPs of the long-term repo), against payment by BMPS of the amount received;
- in addition, BMPS had granted to Nomura a repo facility with maturity on 1 September 2040 (with Nomura's option to extend the maturity until 1 September 2045), according to which Nomura was entitled to use a credit facility up to a maximum amount of Euro 3,050 million, by delivering to BMPS BTPs or similar securities for an equivalent amount. In the event of a drawdown under the credit facility, BMPS would have received payment of interest determined on the basis of the three month Euribor and calculated on the amount of the facility granted. In addition, BMPS would receive a five-basis points fee calculated on the amount of the credit facility granted (Euro 3,050 million) and regardless of the effective drawdowns.

Such transaction was subject to daily collateralization or marginalization obligation. The parties accordingly had to pay so-called guarantee margins to ensure the possibility to liquidate the transactions at any time, in case of early termination due to the other party's default.

Such transaction was settled, and early terminated, in September 2015 (see also paragraph "*"Alexandria" transaction – settlement agreement*").

<u>*Exercises conducted by EBA on banks' capital and capital enhancement measures adopted by BMPS*</u>

During the 2011 financial year, EBA and the Member States' national supervisory authorities conducted, in cooperation with the European Systemic Risk Board ("**ESRB**"), the ECB and the European Commission, a stress exercise on the European Union banking system (the "**Stress Test 2011**").

The Stress Test 2011, which was conducted at a consolidated level, concerned in aggregate 90 banking groups of 21 Member States – among which the BMPS Group – with the aim of assessing the endurance of European banks in hypothetical circumstances of serious worsening of the economic conditions (the so-called "shock") and the relevant solvency in the event of any stress situation relating to certain restrictive conditions. The findings of the Stress Test 2011 highlighted that BMPS satisfied the capital benchmark which had been set for the purpose of the stress test and will continue to guarantee the maintenance of the appropriate capitalization level.

During the course of 2011, after the worsening of tensions on sovereign debt markets, the Council of Heads of State and Government of the European Union approved, at the meeting held on 26 October 2011, the "banking package" aimed at restoring confidence in the banking sector through guarantees

on medium-term lending and through a capital enhancement of the Bank by creating an extraordinary and temporary buffer so as to allow the achievement of a 9 per cent. Core Tier 1 Ratio by 30 June 2012.

Such exercise, which involved 71 international banks and ended on 8 December 2011, led to the issuance by the EBA of a formal recommendation relating to banks' recapitalisation needs. In relation to the Issuer, such recommendation highlighted the need for a capital enhancement of Euro 3,267 million (such capital deficit already takes into account the capital increase realised by the Issuer in 2011 and better described below). In this respect, the Group submitted to the Bank of Italy an intervention plan – to be shared in the context of the colleges of supervisors and with the EBA – for the achievement of the 9 per cent. Core Tier 1 Ratio target within the deadlines set thereon.

For the purpose of implementing such intervention plan, the Issuer took the following actions during the course of 2011:

- conversion into BMPS shares of the convertible bond FRESH 2003. Following the repurchase transaction of such securities (for a value of Euro 152.2 million) carried out within the context of the capital increase concluded on 20 July 2011, on 30 December 2011 BMPS received a further conversion request, for an aggregate amount of Euro 289.8 million, further to which it issued 136,698,112 BMPS ordinary shares at the conversion price of Euro 2.12; and
- reduction of RWAs as a consequence of the overall assets dynamic, their constant remodulation aimed at assuming less risky and/or more guaranteed lending and, finally, ordinary maintenance interventions on risk-measurement parameters.

At the same time, on 6 June 2011, the extraordinary shareholders' meeting delegated the board of directors to increase the share capital for a maximum amount of Euro 2,471 million, to be offered on a pre-emptive basis to those entitled, and approved the removal of the indication of the BMPS shares nominal value.

Such capital increase falls within the capital requalification and enhancement interventions, in line with the approaches of the Basel III regime.

The delegation was exercised by the board of directors on 7 June 2011 and on 20 July 2011, the capital increase for consideration with option rights was completed with the full subscription of 4,824,826,434 newly issued ordinary shares (equal to 41.79 per cent. of the new share capital) for an overall value of Euro 2,152 million, with no intervention of the guarantee syndicate. In particular, in the period from 20 June 2011 to 8 July 2011, 6,694,944,400 option rights were exercised and were subscribed 4,820,359,968 of newly issued BMPS ordinary shares, equal to 99.91 per cent. of total offered shares, for an overall value of Euro 2,150 million. All the 6,203,425 option rights which were not exercised at the end of the offer period were sold on 13 July 2011 (in the first stock exchange offer session of the rights unexercised by BMPS, through Mediobanca, pursuant to article 2441, third subsection, of the Italian Civil Code) and then exercised by 20 July 2011 with the subscription of no. 4,466,466 newly issued ordinary shares, equal to 0.09 per cent. of offered shares, for a total value of Euro 2 million.

* * * * *

Starting from 2009, the Group launched a process for the dismissal of branches mainly located in Tuscany, Umbria and Lazio. In particular, 15 branches were transferred to Banca Popolare di Puglia e Basilicata S.c. a r.l. in September 2009 were transferred 22 branches to Banca Carige S.p.A. in May 2010 and 50 branches to Banca CR Firenze S.p.A. (Intesa Sanpaolo group) in June 2010.

In March 2009, BMPS incorporated the subsidiary Banca Toscana S.p.A. and realised the goal of creating one single bank in that territory. The transaction was authorised by the Bank of Italy on 23 January 2009 and produced civil effects as of 29 March 2009.

During 2009, the rearrangement of the Group's asset management division was also completed through a partnership with the group headed by Clessidra SGR S.p.A. which led to the creation of the "**Prima Group**".

Furthermore, in 2009 the Group continued its rearrangement plan of the real estate division, also through the establishment of a company (Perimetro Gestione Proprietà Immobiliari S.c.p.a.,

controlled by entities external to the Group and in which the Group holds a 7.9 per cent. interest with voting rights), to which MPS Immobiliare transferred a going concern.

In December 2009, the MEF authorised the subscription of debt financial instruments convertible into the Issuer ordinary shares to be issued by BMPS for an amount equal to Euro 1.9 billion (the so called "**Tremonti Bond**").

In 2010, as part of a wide project for the reorganisation of the Group, some relevant extraordinary transactions were finalized, among which:

- the merger by incorporation of MPS Banca Personale S.p.A. into BMPS;
- the merger by incorporation of MPS SIM S.p.A. into BMPS;
- the merger by incorporation of the vehicles Antenore Finance S.p.A., Theano Finance S.p.A., Siena Mortgages 00-1 S.p.A. and Ulisse S.p.A., in liquidation, into BMPS;
- the partial demerger by New Banca Antonveneta of the business unit comprised of 13 branches (in the provinces of Novara, Verbania, Turin and Alessandria) in favour of Biverbanca S.p.A.;
- the merger by incorporation of Paschi Gestioni Immobiliari S.p.A. and MPS Investments S.p.A. into BMPS; and
- the partial demerger of MPS Immobiliare in favour of BMPS and New Banca Antonveneta.

In February 2010, with a view of strengthening its position in the bancassurance sector, BMPS extended the strategic alliance agreement with the group headed by AXA S.A. also to the distribution network represented by the 1,000 branches of New Banca Antonveneta, for a consideration of Euro 240 million.

During 2010, new important initiatives were undertaken as part of the rearrangement project of the asset management division. In particular, BMPS entered into an alliance with the Banca Popolare di Milano group, providing for the progressive business integration between the Prima Group and Anima SGR S.p.A.. By virtue of such agreement BMPS, Clessidra SGR S.p.A. and the Banca Popolare di Milano group agreed to develop a strategic alliance through a new legal entity, Anima Holding S.p.A. (of which BMPS holds 22.24 per cent.) which would have acquired the full share capital of Prima Holding (which in turn held 100 per cent. of Prima SGR S.p.A.) and of Anima SGR S.p.A.. The transaction was completed at the end of December 2010 and Anima Holding S.p.A. became the most important independent operator in the asset management sector in Italy, with more than Euro 40 billion of assets under management.

The full BMPS' stake in Anima Holding S.p.A. was then sold on 25 June 2015 to Poste Italiane S.p.A..

On 18 January 2011, BMPS communicated that the spread on the preferred securities instruments issued by MPS Capital Trust I for Euro 350 million and by Antonveneta Capital Trust I for Euro 80 million was to be increased, and that such instruments were not going to be redeemed on the first possible redemption date (respectively, 7 February 2011 and 21 March 2011). The extent of the spread increase was set in a manner such as to align the remuneration of the preferred securities to that resulting from current market conditions for securities with similar characteristics, taking also into account the residual term of such securities.

In April 2011, Aiace Reoco S.r.l. and Enea Reoco S.r.l., companies fully owned by MPS Gestione Crediti Banca S.p.A., were incorporated for the purpose of carrying out real estate activities connected with the management of credit recovery, with the aim of adding value to the real estate properties used as collateral for the receivables through the purchase (out-of-court or in auction) and subsequent resale of the assets.

On 2 February 2011 and 9 March 2011, two series of covered bonds were issued under the Euro 10 billion programme, as announced at the end of June 2010 and fully backed by the Group's residential mortgages. The first transaction (for an amount of Euro 1 billion) had a seven-year maturity and a

fixed rate structure and provided for a 5 per cent. annual coupon equal to a 5.056 per cent. yield (equivalent to the seven-year Euro mid-swap rate plus a 185 basis points spread). The second transaction (for an amount of Euro 1.25 billion) had a five-and-a-half year maturity with a fixed rate structure and provided for a 4.875 per cent. annual coupon equal to a 4.882 per cent. yield (equivalent to the interpolated mid-swap rate plus a 180 basis points spread). Both transactions were offered to qualified institutional investors and financial intermediaries. Under the same programme, further issuances of covered bank bonds have then been realised.

With legal effect as of 1 May 2011, MPS Commerciale Leasing S.p.A. was merged by incorporation into MPS Leasing & Factoring S.p.A..

On 30 June 2011, the total disposal of the indirect subsidiary Monte Paschi Monaco SAM was finalized with a Euro 9.7 million contribution to the Group's net profits.

On 23 September 2011, BMPS communicated the decision to increase the spread for the preferred securities instrument issued by Antonveneta Capital Trust II for Euro 220 million and accordingly such securities were not redeemed on the first possible redemption date (scheduled for 27 September 2011). The new spread on the three-month Euribor was set at 630 basis points and, effective as from the first possible redemption date (27 December 2011), has replaced the level set contractually. The spread for the issuance was then aligned to the level set for the other two Group's preferred securities (see above), which were not redeemed on 7 February 2011 and 21 March 2011 and whose remuneration was increased to 630 basis points on the three-month Euribor. The decision was adopted taking into account the exceptional circumstances relating to market tensions and the persisting uncertainty of the legislative framework.

On 30 September 2011, the real estate complex located in Rome between via dei Normanni, via Labicana and via San Giovanni in Laterano (former office of the tax collection centre) was assigned to a closed-end real estate fund managed by Mittel R.E. SGR S.p.A.. The completion of the transaction entailed a three basis points benefit on Tier 1.

As from 30 September 2011, further to the prudential recognition of the conditions provided for by the supervisory rules, the capital benefits deriving from the valorisation transaction of the Group's real estate assets, which can be quantified in an increase of around 40 basis points on Tier 1, were acquired.

On 26 October 2011, the assignment of a 22 per cent. stake in the indirect subsidiary MPVenture SGR S.p.A. (at the time MPS Venture SGR S.p.A.) was finalised, with consequent reduction of the equity interest to 48 per cent. and the company going from control to affiliation. The transaction involved a Euro 8 million contribution to the Group's net profit. MPVenture SGR S.p.A. was subsequently fully assigned in the course of the financial year ended on 31 December 2014.

In the course of 2012, a new board of directors was appointed; a chief executive officer was also appointed for the first time and the top management was renewed. Therefore, in the course of the financial year, the Bank's organisational structure was redrawn, with the purpose of simplifying its structure and assuring its adequacy compared to the reference market's developments.

Furthermore, the capital enhancement initiatives started in 2011, and aiming at achieving a 9 per cent. Core Tier 1 Ratio by the end of June 2012, continued. In particular, during the first 6 months of the year, the Issuer proceeded with: (i) the share capital increase without consideration, pursuant to article 2442 of the Italian Civil Code, for an amount of Euro 752 million by conversion to equity of the share premium reserve relating to the 295,236,070 FRESH 2008 Shares; and (ii) the conversion at par of all 18,864,340 saving shares into ordinary shares.

On 26 June 2012, the board of directors approved the Group's business plan for the period 2012-2015 which was then superseded by the business plan for the period 2013-2017, which was approved by the board of directors on 28 November 2013 and set out in detail the strategic and operational lines of the Restructuring Plan (for more information on the Restructuring Plan reference is made to paragraph "*2013*" below). Furthermore, on 8 May 2015 the Bank's board of directors updated the Group's economic and capital objectives as envisaged in the Restructuring Plan, identifying new economic and capital targets referred to the period 2015-2018 (the New Targets, as defined below).

In relation to the Group structure, during 2012 (i) two plans of merger by incorporation of Agrisviluppo S.p.A. and Ulisse 2 S.p.A. into BMPS were approved by the extraordinary shareholders'

meeting; and (ii) the assignment of the 60.42 per cent. stake in the share capital of Biverbanca S.p.A. to Cassa di Risparmio di Asti S.p.A. was finalized. Furthermore, the Bank announced the termination of the shareholders' agreement relating to Banca Popolare di Spoleto.

In June 2012, BPMS launched an exchange offer relating to nine series of subordinated notes (Tier 1, Upper Tier 2 and Lower Tier 2). Those adhering to the offer were offered fixed rate senior notes, to be issued under the Debt Issuance Programme. At the end of the offer period (i) securities for overall Euro 1,007 million, in terms of nominal value/liquidation preference, were accepted, corresponding to 30.74 per cent. of the overall nominal value/liquidation preference of outstanding securities; and (ii) the Bank issued new securities for an overall amount in terms of nominal value equal to Euro 790 million. The finalisation of the transaction allowed the Group to post a Euro 227 million gross capital gain.

2013

During 2013, further amendments to the Bank's organisational structure were realised, among which:

- set up of the large risk management staff reporting to the chief executive officer/general manager;
- set up of the credit recovery area reporting to the credit department, subsequent to the merger by incorporation into BMPS of MPS Gestione Crediti Banca S.p.A.;
- transfer of the compliance area into the risk management department, which assumed the new name of risk department;
- set up and transfer of the legal and corporate area reporting to the chief executive officer/general manager and contextual closing of the compliance and legal department;
- set up of the new private banking area; and
- set up of the on-line bank development area directly reporting to the chief executive officer/general manager.

Furthermore, as part of the initiatives for the renewal of the management, new heads of the legal and corporate area, "on-line bank" services and administration and financial statement area were hired.

On 1 March 2013, BMPS' board of directors has started liability and damages actions in respect of certain structured transactions carried out in the previous financial years. In particular, by virtue of a board of directors resolution, the Bank started before the Civil Courts of Florence the following judicial actions and in particular:

- a corporate liability action against former chairman Giuseppe Mussari and former general manager Antonio Vigni and a non-contractual liability action for association thereof with the aforementioned Bank officers against Nomura, in respect of the financial restructuring transaction concerning the "Alexandria" notes carried out in July-October 2009; such action sought the joint conviction of defendants to the compensation for damages incurred and to be incurred by the Bank as a result of the challenged transaction. The requests against Nomura were relinquished on 23 September 2015 in the context of the settlement agreement entered into with Nomura (see below paragraph "*"Alexandria" Transaction – settlement agreement*");
- a corporate liability action against former general manager Antonio Vigni, and a non-contractual liability action for association thereof with the aforementioned Bank officer against Deutsche Bank in respect of the total return swap transactions entered into in December 2008 in relation to the vehicle Santorini Investment Ltd; such action sought the joint conviction of the defendants to the compensation for damages incurred and to be incurred by the Bank as a result of the challenged transactions. The requests against Deutsche Bank were relinquished on 19 December 2013 in the context of the settlement agreement entered into with the same Deutsche Bank (see below paragraph "*"Santorini" Transaction – settlement agreement*");

On 1 March 2013, BMPS and trade unions (FABI – Federazione Autonoma Bancari Italiani; FIBA – Federazione Italiana Bancari e Assicurativi; UGL – Unione Generale del Lavoro e UILCA – UIL Credito, Esattorie e Assicurazioni) defined the full granting of employees' requests to adhere to the

solidarity fund, in implementation of the agreement reached between the same parties on 19 December 2012 concerning the Group's business plan for the period 2012-2015. As a consequence of the determinations adopted, the employment relationships of approximately 1,660 employees were early terminated.

On 28 March 2013, BMPS' board of directors approved the results for financial year 2012 and resolved to summon the ordinary shareholders' meeting for 29 and 30 April 2013, respectively in first and second call, to approve, *inter alia*, the individual and consolidated financial statements as at 31 December 2012 and resolved upon the institution of the liability action, pursuant to article 2393 of the Italian Civil Code, against former company's officers.

On 23 April 2013, the merger by incorporation deed of New Banca Antonveneta into BMPS was entered into, with civil effects as of 28 April 2013 and accounting and tax effects as of 1 January 2013.

On 29 April 2013, the Issuer's ordinary shareholders' meeting approved, *inter alia*, the individual and consolidated financial statements as at 31 December 2012 and ratified the resolution adopted by the board of directors on the liability action instituted on 1 March 2013 against former company's officers.

On 6 May 2013, the merger by incorporation deed of MPS Gestione Crediti Banca S.p.A. into BMPS, was entered into, with civil effects as of 12 May 2013 and accounting and tax effects as of 1 January 2013.

On 5 July 2013, it was confirmed that, as a result of the termination notice served on 27 July 2012 by BMPS on Spoleto Credito e Servizi Soc.Coop., the shareholders' agreement between the two companies was terminated with effect as of 30 June 2013.

On 18 July 2013, the Issuer's extraordinary shareholders' meeting approved some statutory amendments mainly concerning the removal of the 4 per cent. limit to shareholding, the inclusion of the maximum limit of two consecutive mandates after the first one for the members of the board of directors (except for the outgoing chief executive officer), the implementation of the new regime relating to "gender quotas" and the introduction of the age limit for the members of the board of directors, the chairman and the chief executive officer (respectively at 75 years, 70 years and 67 years). The ordinary shareholders' meeting then resolved, *inter alia*, the appointment of Mr. Franco Michelotti as alternate auditor in substitution of Prof. Gianni Tarozzi who had resigned in May.

On 8 November 2013, Banca Widiba S.p.A. was set up, 100 per cent. owned by BMPS and which will carry out the on-line bank business for the Group starting from the second half-year of 2014. In particular, with resolution no. 252/2014, the Bank of Italy authorised Banca Widiba S.p.A. to the exercise the banking business and the provision of investment services under article 1, subsection 5, lett. a) (*dealing for own account*), b) (*execution of orders for clients*), c) (*subscription and/or placement with firm commitment underwriting or standby commitments to issuers*), c-*bis*) (*placement without firm or standby commitment to issuers*), d) (*portfolio management*), e) (*reception and transmission of orders*) and f) (*investment consultancy*) of the legislative decree no. 58 of 24 February 1998 (as amended, the "**Consolidated Finance Act**").

<u>*New Financial Instruments*</u>

Following the capital exercise conducted by the EBA in the last months of 2011 – aiming at restoring confidence in the EU banking sector after the tensions on sovereign issuers' debt securities markets – which ended up with the verification on data as at 30 June 2012, the Bank was found to have a capital need – necessary to achieve a 9 per cent. Core Tier 1 Ratio – equal to Euro 3,267 million. Such target was inclusive of the lower valuation, as at 30 September 2011, of exposures to sovereign issuers in order to take into account market concerns on sovereign risk. For the purpose of covering such capital shortfall, the Bank – in agreement with the supervisory authority and the MEF – identified as a suitable tool to this aim, the issuance of the new financial instruments (the "**New Financial Instruments**" hereinafter) to be subscribed for by the MEF and eligible as supervisory capital (Core Tier 1).

On 28 November 2012, BMPS' board of directors approved the issuance of the New Financial Instruments for an amount of Euro 3.9 billion.

On 25 January, 2013 the Issuer's extraordinary shareholders' meeting resolved to grant the board of directors a delegation to increase the share capital, with exclusion of option rights, for a maximum value of Euro 4,500 million, to the exclusive service of the Bank's exercise of the conversion right of the New Financial Instruments and/or to increase the share capital, with exclusion of option rights, pursuant to articles 2443 and 2441, subsection 5, of the Italian Civil Code, by issuing ordinary shares for a maximum value of Euro 2,000 million, to the exclusive service of the payment in shares of interests to be paid pursuant to the regime applicable to the New Financial Instruments.

On 28 February 2013, the issuance of the New Financial Instruments was completed. In particular, the MEF subscribed the New Financial Instruments issued by the Bank for an aggregate amount of Euro 4,071 million, of which around Euro 1,900 million for the purpose of the full replacement of the so-called Tremonti Bonds issued by the Bank in 2009 and Euro 171 million, with entitlement date 1 July 2013, on account of payment of interests accrued until 31 December 2012 on the so called Tremonti Bonds in consideration of the loss for the year recorded in 2012.

For more information on the redemption and full refund of the New Financial Instruments, see paragraphs "*2014"* and *"2015"* below.

Restructuring Plan

On 7 October 2013, BMPS' board of directors approved the restructuring plan 2013-2017 (the "**Restructuring Plan 2013-2017**"), designed according to the guidelines shared with the MEF and the competent offices of the European Commission.

The Restructuring Plan 2013-2017 was transmitted to the MEF for subsequent notification to the European Commission, which notified its approval on 27 November 2013.

The Restructuring Plan 2013-2017 provided for the achievement of net profits of around Euro 900 million and a ROTE of around 9 per cent. by 2017. Among the targets of the Restructuring Plan 2013-2017, for 2017 the following should be noted: (i) the reduction of the number of employees by around 8,000 units; (ii) the reduction of other administrative costs by around Euro 440 million in the period 2013-2017; (iii) the closing of overall 550 domestic branches by 2015 (including the 335 branches already closed between December 2012 and June 2013); (iv) an increase in revenues (in terms of CAGR in the period 2013-2017) equal to 0.8 per cent.; (v) a decrease in operational costs (always in terms of CAGR in the period 2013-2017) equal to 2.1 per cent.; (vi) a cost/revenue ratio equal to around 50 per cent.; (vii) the reduction of the cost of funding to 90 basis points[11]; (viii) a lending/overall deposit collection ratio equal to around 90 per cent. (around 101 per cent. net of institutional deposit collection); and (ix) a phased in Common Equity Tier 1 Ratio level equal to around 10 per cent..

In the context of the Restructuring Plan 2013-2017, initiatives were envisaged which aimed at allowing the full redemption of the New Financial Instruments by 2017, whose goal was achieved on 15 June 2015 (see paragraph *"2015"* below).

Furthermore, in the context of the State aid procedure and of the issuance of the New Financial Instruments, the Bank committed with the MEF (in a way similar to the commitments vis-à-vis the Republic of Italy during the procedure for the approval by the European Commission of the Restructuring Plan 2013-2017) the relevant terms which, unless otherwise specified, has been set from the approval date of the Restructuring Plan 2013-2017 by the European Commission (27 November 2013) until 31 December 2017. The main commitments given are summarised below and are substantially in line with that disclosed by the European Commission in respect of the commitments given by the Republic of Italy:

– Monitoring of commitments: the implementation of the commitments given by the Bank is monitored on an on-going basis by Degroof Petercam Finance, as independent trustee. The monitoring trustee was appointed by the Bank on 28 April 2014 subject to the prior approval of the European Commission and is paid for its activity by the same Bank;

[11] Calculated excluding receivables represented by securities from the lending set out in the financial statement. Including such component, the cost of funding would be 88 basis points.

– Reduction of assets: the Bank undertook to reduce the total financial statement assets according to what was provided for in the Restructuring Plan, with a margin of tolerance of 10 per cent. for the period 2013-2016 (but without any margin for 2017);

– Reduction of Italian government securities in the AFS portfolio: the Bank undertook to reduce the Italian government securities held in the AFS portfolio up to a nominal value of Euro 17 billion in 2017, with a further reduction by an amount identified in the context of the commitments should the "Alexandria" and/or "Santorini" transactions be terminated further to a favourable conclusion of the judicial proceedings pending. After the early termination of the "Santorini" transaction, due to the entering into of the settlement agreement of 19 December 2013, and the early termination of the "Alexandria" transaction, by way of a settlement agreement in September 2015, the reduction target for 2017 was re-determined at Euro 14 billion;

– Assignment of equity interests: the Bank shall assign the equity interests in Consum.it S.p.A., MPS Leasing & Factoring S.p.A.(leasing business), Monte Paschi Banque S.A. ("**MP Banque**") and Banca Monte Paschi Belgio ("**MP Belgio**"). Such assignments may be postponed by twelve months in the event that the bids received are lower than the book value of the equity interest or are such as to generate a loss in the Bank's consolidated financial statement. In case the sale is not executed by the end of the envisaged period, an exclusive mandate will be granted to a third party (the "**Divestiture Trustee**") to realize such divestments. Should the Divestiture Trustee not be able to realize one or more of the aforementioned assignments in a way which would not cause an excessive loss for the Bank (i.e. a loss which would jeopardize its sustainability), the Bank will be entitled to propose to the European Commission alternative measures to the assignment. In relation to the above, it should be noted that, after having verified the absence of favourable market conditions for an assignment, at the beginning of 2014 BMPS and Consum.it S.p.A. entered into an alliance agreement with two counterparties (Compass S.p.A. and Futuro S.p.A.), appointed for the granting of personal loans and personal loans redeemable by assignment with recourse (*pro solvendo*) of one fifth of salary/pension; furthermore, on 11 May 2015, the merger by incorporation deed of Consum.it S.p.A. was entered into. The implementation of the commitment relating to Consum.it S.p.A. shall then be deemed completed;

– Closing of foreign branches: the Bank undertook to close its New York branch as soon as possible and in any case no later than a certain date specified in the context of the commitments;

– Closing of domestic branches: the Bank undertook to close further 150 domestic branches by 2015 (in addition to the 278 branches already closed between December 2012 and June 2013), so to bring the total branches number to around 2,200 at the end of 2017. Accordingly, as at 31 December 2015, the total number of branches was 2,133;

– Proprietary trading: prohibition to carry out, for the entire term of the Plan, trading activities which may significantly increase the Bank's risk profile. In particular, the trading book VaR for fluctuations in market prices, (as defined in the new supervisory rules) may not exceed a certain amount identified in the context of the commitments and comprised in a range between Euro 15 million and Euro 25 million per day and in a range between Euro 10 million and Euro 20 million in daily average, with a range of confidence of 99 per cent. (where "daily average" means the daily average in each three-month rolling period). The "stop loss" limit for proprietary trading is set at an amount specified in the commitments and included in a range between Euro 25 million and Euro 35 million. Furthermore, the proprietary trading activity shall be limited to liquid instruments, with reliable quotations provided by a reasonable number of market operators (at least five) and with low transaction costs (i.e., maximum bid/ask spread over notional according to a percentage specified in the commitments). In particular, it is forbidden for the Bank to hold financial instruments which do not fall within the normal Bank business or derivatives with "exotic" underlyings;

– Prohibition of acquisitions: it is forbidden for the Bank, throughout the entire term of the Plan and until the full redemption of the New Financial Instruments, to acquire equity interests in any enterprise category (company or asset classes), except for equity interests (i) acquired in the context of normal banking transactions aimed at managing outstanding receivables owed by enterprises in difficulty; (ii) acquired in the context of the normal banking business, provided that the transaction is consistent with the Restructuring Plan 2013-2017; (iii) originated from the subscription of new shares of the company Autostrade Tirrenica S.p.A. within the limits and according to the conditions strictly necessary to comply with the contractual obligations arisen prior to 17 December 2012; (iv) in securitisation vehicles as part of structured funding transactions; (v) in vehicles or companies aimed at the implementation of the Restructuring Plan 2013-2017 or contemplated by the same Plan; (vi) the acquisition price of which is lower than the specified amounts specifically set out in the context of the individual and aggregated commitments. The acquisition of Perimetro Gestione Proprietà Immobiliari S.c.p.a. and the incorporation/acquisition of a company aimed at the implementation of the "on-line bank" (i.e. Banca Widiba S.p.A.) are expressly permitted. In spite of the prohibition under this commitment, the Bank may acquire, subject to prior authorisation of the Commission, equity interests in businesses in case this should be necessary in exceptional circumstances to restore the financial stability or to ensure an effective competitiveness;

– Hybrid capitalization instruments: until the completion of the 2014 capital increase it was forbidden for the Bank to proceed with the payment of coupons on hybrid capitalization instruments, except with respect to any legal or contractual obligation to proceed with the payment;

– Liability management: it is forbidden for the Bank to carry out liability management transactions, unless such transactions are carried out in compliance with precise limits in terms of minimum discount over nominal value and premium compared to market price. Any liability management transaction will in any case be promptly submitted for the approval of the competent offices of the European Commission;

– Restriction on dividends: the Bank undertook not to distribute dividends until the capital increase provided for in the Restructuring Plan 2013-2017 will be completed. Such restriction was removed after the capital increase provided for by the Restructuring Plan 2013-2017, carried out in 2014. Although this restriction provided for in the Plan is no longer applicable, the Bank remains subject to a restriction on the payment of dividends imposed by the ECB in February 2015, after the conclusion of the Supervisory Review and Evaluation Process ("**SREP**");

– Restrictions in the matter of advertising: the Bank undertook not to use the granting of State aid or the competitive advantages which may derive therefrom for advertising purposes;

– Business policy: the Bank's business policy shall be inspired by prudence and oriented towards sustainability;

– Pricing business strategies: the Bank undertook not to adopt any aggressive business policy which would not be possible in the absence of State aid;

– Cost reduction: the Bank undertook to reduce operational costs according to the provisions of the Restructuring Plan, with a margin of tolerance of 2 per cent. for the period 2013-2016 (but no margin for 2017). If in 2015 or in 2016 the commission income and the net profit targets were not achieved and the ROE is also lower than as provided for, the Bank undertook to adopt further cost reduction measures. The amount of such possible further reduction will be equal to the lower of (i) the difference between commission income expected and realised; (ii) the difference between gross profit expected and realised; and (iii) an amount specifically provided for in the context of the commitments. For the purposes of the above, targets are deemed achieved with a 2 per cent. margin of tolerance;

– Capital increase: the Bank fulfilled the commitment of carrying out a capital increase by at least Euro 2.5 billion by 2014 with the execution of the capital increase with option rights by Euro 5 billion in July 2014;

– Remuneration of senior management: according to the Plan's provisions, the Bank undertook to limit the overall remuneration (including any variable component, but excluding pension costs imposed on the Bank) for each member of the board of directors and each senior manager at an appropriate level. In principle, a remuneration exceeding Euro 500,000 per year may not be deemed appropriate. The remuneration limit set out in the Plan was removed after the capital increase provided for by the Restructuring Plan 2013-2017 and carried out in 2014 (although the Bank remains subject to compliance with paragraph 6 ("*Banks benefiting from State aid*") of the measure adopted by the Bank of Italy on 30 March 2011 ("*Provisions in the matter of remuneration and incentive policies and practices within banks and banking groups*"), as subsequently amended and supplemented; and

– Commitments relating to corporate governance: the Bank fulfilled the commitment to submit to the shareholders' meeting a proposal concerning the introduction in the by-laws of a clause by virtue of which at least one third of the members of the board of directors should be comprised of directors meeting the independence requirements provided for by Italian laws and regulations. The shareholders' meeting approved such proposal on 29 April 2014.

The Bank hence put in place activities aimed at complying with the above-mentioned commitments - which the Bank did in almost the entirety of cases.

Outsourcing of back office services

In the context of the optimization activity of ancillary, accounting and administrative services (the "**Back Office Services**"), on 30 December 2013 - effective as of 1 January 2014 - the Issuer assigned the Back Office Services business unit to Fruendo S.r.l. (whose company's shares are held for 60 per cent. by Bassilichi S.p.A. and 40 per cent. by Accenture S.p.A.) and contextually entered into, together with other Group companies, outsourcing agreements for 18 year with Fruendo S.r.l. and with Accenture S.p.A. for the outsourcing of such services.

Among the main effects of the outsourcing of Back Office Services, it should be noted: (i) the transfer to Fruendo S.r.l. of approximately 1,100 BMPS resources; (ii) a structural cost reduction by 22 per cent. (net value between staff costs and other administrative costs) on average on a yearly basis; (iii) the establishment of an excellence pole for quality of services for the Bank's branches and final customers through process innovation and technology; (iv) the creation of a new important business reality, able to act as optimization platform for financial services.

"Santorini" Transaction – settlement agreement

In relation to the structured finance transaction named "Santorini", on 19 December 2013, the Bank and Deutsche Bank entered into an agreement governing the conditions of the early termination of the transactions, which were put in place between December 2008 and July 2009, and concerning a Euro 2 billion investment in BTPs with 6 per cent. coupon and maturity in May 2031, funded with a long-term repo of equal maturity, and an interest rate swap entered into for the purpose of reducing the investment rate risk.

In particular, on the basis of the calculations made by the Bank in application of its own valuation parameters, the early termination would have involved a Euro 746 million disbursement (equal to the mark to market of the overall position represented by BTPs, long-term repo and interest rate swap). Further to the termination of the transaction, the actual disbursement for BMPS was down to Euro 525 million, with an estimated Euro 221 million economic benefit.

In light of the termination of the transaction on the above mentioned economic terms, BMPS settled the damage claims instituted thereby before the Courts of Florence in March 2013 against Deutsche Bank, however only with respect to Deutsche Bank's liability quota, and it relinquished in full every other claim, action or right enforceable against Deutsche Bank (and its directors, employees, consultants and/or officers in charge or in office at the time of events) in respect of the "Santorini" transaction, without prejudice to the corporate liability action against the former General Manager,

and, moreover, without prejudice to any further BMPS' claim against other persons who may prove jointly liable with reference to the "Santorini" transaction.

The impact through profit or loss of the settlement agreement for BMPS was negative by Euro 287 million (approximately Euro 194 million net of taxes), as represented below:

Transaction components	Accounting impacts *(in Euro million)*
BTP 2031	(2,346)
Long-term repo **(inclusive of the Euro 429 million restatement as at 31 December 2008)**	2,475
Interest rate swap	497
Partial balance (A)	***626***
Re-entry through profit or loss of AFS reserve	(388)
Partial balance (B)	***238***
Transaction disbursement	(525)
Total balance through profit or loss	***(287)***

Compared to the representation provided in periodic financial reports pursuant to the Document adopted jointly by Bank of Italy/CONSOB/IVASS No. 6 of 8 March 2013, the impact through profit or loss of the termination of the transaction would basically coincide, considered that the closing value of the transaction was determined taking into account the mark to market of the various components of the transaction.

From an equity perspective, the agreement determined a positive impact by approximately 25 basis points in terms of fully phased Basel III Common Equity Tier 1, compared to data as at 30 September 2013 (last available reporting prior to the transaction termination date). In addition, the above-mentioned positive effects in terms of supervisory capital, the closing of the transaction generated positive results for BMPS both through prospective profit or loss, since the set of terminated transactions would have produced a negative contribution to the estimated interest margin, gross of tax effect, by approximately Euro 33 million per year, as well as on risk and liquidity profiles. As regards the latter, the overall positive effect was equal to Euro 173 million, as a result of the difference between the value of refunded collaterals, equal to Euro 698 million, and the price paid for the early closing of the transactions, equal to Euro 525 million.

The properness and fairness even under a methodological point of view of the benefit possibly obtained by this negotiation have also been determined with the support of external consultants.

2014

During the first six months of 2014, an important Issuer's organisational rearrangement was conducted, with the purpose of strengthening the commercial functions and controlling, in an integrated and coordinated manner, the governance and business support functions.

With specific reference to the business functions, the Issuer put in place the following interventions: (i) the credit department was strengthened by setting up a specific vice general direction; (ii) the specialisation of controls on the various business segments was increased by setting up the retail and network department (for the retail and private segments, and the coordination of the commercial network) and the corporate and investment banking department (for the corporate, large groups, international activities and private equity segments); and (iii) the financial promotion activity was annexed to the business unit set up for the purpose of developing Banca Widiba S.p.A. (i.e. the on-line bank development area).

In relation to the management, control and business support functions, BMPS put in place the following actions: (i) the finance and operations general vice department was set up, to which the chief financial officer department and the chief operating officer department shall report; (ii) the human resources, organisation and communication department was developed for the purpose of supporting an effective interaction between staff management, corporate organisational structures and internal and external communication; and (iii) the risk department was reorganised by setting up a more organic control on validation, monitoring and risk-reporting activities.

On 27 January 2014, the deed for the merger by incorporation of Monte Paschi Ireland Limited into BMPS was entered into, with civil effects as of 11 February 2014 and accounting and tax effects as of 1 January 2014.

On 14 January 2014, BMPS entered into an agreement with Compass S.p.A., a company leader in consumer lending being part of the group headed by Mediobanca, for the distribution of Compass S.p.A. loans in the Group branches.

On 29 April 2014, the Issuer's ordinary shareholders' meeting approved the individual and consolidated financial statements as at 31 December 2013 and, in extraordinary session, approved some amendments to the by-laws concerning, in particular, matters relating to the gender balance in the composition of the board of directors and board of statutory auditors and the increase of the minimum quota of independent directors within the board of directors.

On 5 May 2014, the reverse stock split of BMPS ordinary shares was executed according to a ratio of one new share for each 100 shares held, as resolved by the Issuer's extraordinary shareholders' meeting held on 28 December 2013.

On 21 May 2014, the Issuer's extraordinary shareholders' meeting resolved to increase the share capital for consideration by a maximum amount of Euro 5 billion, by issuing ordinary shares to be offered on a pre-emptive basis to the Issuer's shareholders.

On 1 July 2014, the Issuer proceeded with (i) the redemption of nominal Euro 3 billion of New Financial Instruments; and (ii) the payment of interests accrued in 2013 thereon by issuing and contextually redeeming New Financial Instruments, for an aggregate amount of approximately Euro 3.5 billion, according to the provisions of the Bank of Italy's authorisation of 13 May 2014 and in accordance with the commitments given in the context of the State aid procedure.

On 4 July 2014, the share capital for consideration with option rights as resolved by the extraordinary shareholders' meeting in the meeting of 21 May 2014 was finalised. The capital increase was completed with the full subscription of 4,999,698,478 newly issued ordinary shares, equal to 97.7 per cent. of the new share capital, for an overall value of Euro 4,999,698,478, with no intervention of the guarantee syndicate. In particular, during the offer period (from 9 June 2014 to 27 June 2014) 116,636,830 options rights were exercised and accordingly overall no. 4,992,056,324 BMPS newly issued ordinary shares were subscribed for, equal to 99.85 per cent. of total offered shares, for an overall value of Euro 4,992,056,324. All 178.555 unexercised option rights at the end of the offer period were sold on 1 July 2014 (in the first stock exchange offer session of rights unexercised by BMPS, pursuant to article 2441, subsection 3, of the Italian Civil Code) and subsequently exercised within 4 July 2014 with the subscription of no. 7,642,154 newly issued ordinary shares, equal to 0.15 per cent. of offered shares, for an overall value of Euro 7,642,154.

On 7 August 2014, after the consultation launched in July with trade unions, BMPS and the trade unions entered into an agreement for activating the solidarity fund for 2014 with the aim of reducing staff by 1,334 units. In addition, on 17 November 2014, BMPS and the trade unions entered into an agreement for additional 90 adhesions to the solidarity fund, bringing the overall redundancies resorting to the redundancy scheme to a total of more than 1,400 units.

On 18 September 2014, the on-line bank, Banca Widiba S.p.A. began its operations.

On 26 October 2014, the ECB disclosed the findings of the comprehensive assessment and on 5 November 2014 BMPS' board of directors approved the related capital plan (as described below, the "**Capital Plan**"), which provided for, *inter alia*, a capital increase for an overall amount equal to maximum Euro 2.5 billion.

On 5 December 2014, the merger by incorporation of MPS Immobiliare, company 100 per cent. controlled by the Issuer, into BMPS was effective. The merger accounting and tax effects were effective as of 1 January 2014.

During the course of the financial year ended 31 December 2014, the Group finalised, respectively on 27 June 2014 and 24 December 2014, two non-recourse assignments to a securitisation vehicle funded by companies affiliated to Fortress Investment Group LLC. The first sale, concerning a portfolio comprised of approximately 12,000 non-performing loans (deriving from medium and long term secured and unsecured loans) with a gross book value of approximately Euro 500 million and a coverage ratio exceeding 90 per cent., generated a loss, gross of tax impact, equal to Euro 11.4 million, against future administrative and managerial benefits deriving from the size of the portfolio being assigned, whilst the second assignment, concerning a portfolio comprised of approximately 4,000 non-performing loans (deriving from medium and long term secured and unsecured loans) with a gross book value of approximately Euro 380 million and a coverage ratio a equal to 89 per cent., generated a loss, gross of tax impact, equal to Euro 12.2 million, against future administrative and managerial benefits deriving from the size of the portfolio being assigned.

Comprehensive assessment

On 4 November 2014, the ECB took on the supervisory duties provided for in the context of the SSM, among which was the supervision over banking groups of considerable sizes.

In this respect, during the period from November 2013 to October 2014 the ECB carried out, with the cooperation of the national authorities in charge of conducting banking supervision, a thorough assessment which involved 130 EU credit institutions, among which the Bank (so called comprehensive assessment).

The comprehensive assessment had three main goals: transparency (improving the quality of available information on the conditions of banks), correction (identifying and undertaking the necessary corrective measures, if any), and building of confidence (assuring to all persons concerned by the banking business that institutions are basically healthy and reliable).

The assessment was structured in two streams: (i) an asset quality review which provided an accurate valuation over time of the accuracy bank assets' book value as at 31 December 2013; and (ii) a stress test exercise, which provided a prospective analysis of the soundness of the banks' solvency (assessed over the 2014-2016 three-year time period) in two scenarios: "baseline scenario" and "adverse scenario".

The findings of the comprehensive assessment, disclosed by the ECB on 26 October 2014, were the following: (i) the Bank passed the asset quality review, with a Common Equity Tier 1 Ratio equal to 9.5 per cent. against a minimum 8 per cent. threshold; (ii) the Bank passed the stress test in the "baseline scenario", with a Common Equity Tier 1 Ratio equal to 8.8 per cent. against a minimum 8 per cent. threshold; and (iii) the Bank failed the stress test in the "adverse scenario", with a Common Equity Tier 1 Ratio equal to 2.7 per cent. against a minimum 5.5 per cent. threshold and a consequent capital shortfall equal to Euro 2,111 million.

After the publication of the findings of the comprehensive assessment, the Bank submitted to the ECB the Capital Plan aiming at replenishing, within a nine-month period (i.e. by the end of July 2015), such capital shortfall. The Capital Plan, approved by the Issuer's board of directors on 5 November 2014, provided for the following main interventions:

- a capital increase with option rights up to a maximum of Euro 2.5 billion; and
- non-diluting shares for shareholders, represented by further capital management measures estimated in approximately Euro 220 million, such as assignment of non-core equity interests and high capital absorption treasury assets.

On 10 February 2015, the European Central Bank informed the Bank of the findings of the SREP and the approval of the Capital Plan submitted by the Bank.

2015

SREP 2014 and capital enhancement transaction

As part of the duties entrusted to the ECB within the framework of the SSM, the supervisory authority carried out the SREP for the purpose of ascertaining that banks subject to the ECB supervision adopted safeguards, strategies and processes of financial and organisational nature appropriate compared to the risks taken, including those resulting from stress test exercises. After having completed the SREP activity, on 10 February 2015, the ECB identified the minimum threshold for Common Equity Tier 1 Ratio, on a transitional basis, equal to 10.2 per cent. and the minimum threshold for Total Capital Ratio, on a transitional basis, equal to 10.9 per cent..

Considering the deductions from supervisory capital provided for by Basel III for 2015 (phase-in thresholds), the Issuer's board of directors, on 11 February 2015, resolved to submit to the extraordinary shareholders' meeting a capital increase with option rights up to a maximum of Euro 3 billion, compared to the Euro 2.5 billion provided for in the Capital Plan, for the purpose of having a buffer compared to minimum thresholds, on a transitional basis, of Common Equity Tier 1 Ratio equal to 10.2 per cent. and Total Capital Ratio equal to 10.9 per cent. as required by the ECB in the context of the SREP.

On 16 April 2015, the extraordinary shareholders' meeting approved the aforementioned capital increase for a maximum value of Euro 3.0 billion. The same shareholders' meeting furthermore resolved, *inter alia*, in extraordinary session to (i) reduce the share capital to cover for the losses accrued and cumulative as at 31 December 2014, equal to Euro 7,320,141,297, reduced to Euro 6,718,684,236 due to the use of available reserves for aggregate Euro 601,457,061, reducing the share capital by a corresponding amount, which accordingly now amounts to Euro 5,765,522,412.60, (ii) not recreate valuation reserves, (iii) group together ordinary shares in the ration of 1 new ordinary share every 20 outstanding ordinary shares, and (iv) amend articles 12, 13, 14, 15, 17 and 23 of the corporate by-laws, with consequent adjustment of articles 24 and 27 of the same by-laws. During the ordinary session, the shareholders' meeting appointed the members of the board of directors and board of statutory auditors who shall remain in office until the date of the shareholders' meeting called to approve the financial statements relating to financial year closed on 31 December 2017.

On 19 June 2015, the share capital for consideration with option right (as resolved by the extraordinary shareholders' meeting during the meeting on 16 April 2015) was finalised with the full subscription of 2,558,256,930 newly issued ordinary shares, for an overall value of Euro 2,993,160,608.10, with no intervention of the guarantee syndicate. In particular, during the offer period (from 25 May 2015 to 12 June 2015) 254.771.120 options rights were exercised for the subscription of 2,547,771,200 new shares, equal to 99.59 per cent. of total offered new shares, for an overall value of Euro 2,980,822,104.00. All 1,054,573 unexercised option rights at the end of the offer period were sold on 16 June 2015 (in the first stock exchange offer session of rights unexercised by BMPS, pursuant to article 2441, subsection 3, of the Italian Civil Code) and subsequently exercised with the suspiration of 10,545,730 newly issued ordinary shares, equal to 0.41 per cent. of offered shares, for an overall value of Euro 12,338,504.10.

Amendments to the Restructuring Plan 2013-2017 and new targets

On 8 May 2015, in light of the significant changes intervened after the approval by the European Commission of the Restructuring Plan, the Bank deemed it appropriate to update the Group's economic and capital targets envisaged in the Restructuring Plan, identifying economic and capital new targets referred to the period 2015-2018 (the "**New Targets**"). Such New Targets were approved by BMPS' board of directors on 8 May 2015 and illustrated to the financial community on 11 May 2015, through the presentation document called "*1Q2015 GMPS Results – Business Plan update*", made available to the public on the Issuer's website (www.gruppomps.it).

Merger by incorporation of Consum.it S.p.A.

On 11 May 2015, the deed for the merger by incorporation of Consum.it S.p.A., company 100 per cent. controlled by the Issuer, into BMPS was entered into, with civil effects as of 1 June 2015 and accounting and tax effects as of 1 January 2015.

Redemption of the New Financial Instruments

On 15 June 2015, on the basis of the agreements intervened with the MEF, the Issuer proceeded with the full redemption of residual nominal Euro 1.071 billion of New Financial Instruments (against payment of a consideration of approximately Euro 1.116 billion, pursuant to the provisions of the prospectus for the issuance of the New Financial Instruments), early completing the refund of State aid received in 2013, as opposed to the final deadline of 2017 provided for in the context of the commitments made to the MEF and the European Commission's DG Comp.

On 1 July 2015, in execution of the resolution adopted by the board of directors of 21 May 2015, no. 117,997,241 ordinary shares, equal to 4 per cent. of the share capital, with contextual share capital increase of Euro 243,073,800.00 were issued in favour of the MEF – on account of interests accrued as at 31 December 2014 pursuant to the "New Financial Instruments" regime provided for by Law Decree No. 95 of 6 July 2012, as amended. The MEF gave to BMPS, in respect of such shares, a lock up undertaking until the 180th calendar day after 1 July 2015.

Assignment of non-performing loans to Banca IFIS

On 23 June 2015, the Issuer entered into a binding agreement for the non-recourse assignment of a portfolio of non-performing loans comprising consumer credits, personal loans and credit cards originated by Consum.it S.p.A. to Banca IFIS S.p.A. and a securitisation vehicle funded by a company affiliated with Cerberus Capital Management, L.P.. The portfolio being assigned comprised almost 135,000 loans with a gross book value of approximately Euro 1 billion (Euro 1.3 billion, including delayed interests accrued and/or other charges assigned thereto).

Assignment of the equity interest in Anima Holding S.p.A.

On 25 June 2015, the Issuer entered into a final agreement for the purchase by Poste Italiane S.p.A. of the 10.3 per cent. equity interest held by BMPS in Anima Holding S.p.A..

Resignations of Alessandro Profumo

On 24 July 2015, Alessandro Profumo resigned from his role of chairman and member of BMPS' board of directors. On 15 September 2015, the ordinary shareholders' meeting resolved to integrate the board of directors with the appointment of Massimo Tononi, who was vested with the role of chairman of the board of directors.

"Alexandria" transaction – settlement agreement

In relation to the structured finance transaction named "Alexandria", on 23 September 2015 the Bank and Nomura International plc entered into an agreement governing the conditions of the early termination of the transactions, which were put in place in 2009 and relating to an investment in asset swap BTPs with maturity in 2034, for a nominal value of Euro 3 billion, that was funded with a long-term repo of equal maturity. Within the context of the termination of such transactions the claim for damages started by BMPS in March 2013 against Nomura before the Courts of Florence relating to the same transaction was settled. Such termination referred only to Nomura's liability quota, without prejudice to the corporate liability action against the former chairman and the former general manager, and without prejudice to any further BMPS' claim against other persons, unrelated to Nomura, who may prove jointly liable with reference to the "Alexandria" transaction. Similarly, the proceeding instituted by Nomura with the English Courts was ended.

In particular, by applying a pricing methodology agreed between the parties, the early termination of the overall position (resented by BTP, long-term repo, interest rate swap and liquidity facility), autonomously assessed, would have involved a Euro 799 million disbursement, inclusive of Euro 188 million corresponding to the restoration of the funding benefit loss incurred by Nomura as a result of the early termination of the transaction. After the termination of the transaction, the actual disbursement for BMPS was down to Euro 359 million. As a consequence, BMPS benefited from a lower disbursement of Euro 440 million compared to the shared transaction pricing. In addition, within the context of the termination, Nomura delivered to the Bank, at market values, a portfolio mainly comprised of asset swap BTPs with medium-long financial terms, for an approximate overall nominal value of Euro 2,635 million. The difference between the carry value of the old portfolio and the new one was positive by approximately Euro 40 million per annum from the agreement date onwards. Vice versa the one-off impact on the 2015 income statement of the settlement agreement for BMPS was negative by approximately Euro 130 million (approximately Euro 88 million net of taxes).

In this respect, it should be noted that with the entering into of this settlement agreement the Bank undertook not to appear as civil plaintiff in the criminal proceedings concerning the "Alexandria" transaction pending before the Courts of Milan, nor against Nomura or the managers who acted on its behalf.

SREP 2015

On 25 November 2015, the ECB informed BMPS of the outcome of the SREP for financial year 2015 ("**SREP Decision 2015**"), specifying that the Issuer shall comply with a minimum capital requirement in terms of Common Equity Tier 1 Ratio on a consolidated basis of 10.75 per cent. starting from 31 December 2016 (and from 1 January 2016 until 31 December 2016, not lower than 10.2 per cent., as per the SREP Decision 2014). In this context, the ECB has reiterated some prudential requests, *inter alia*, on Own Funds requirements, on the assignment of assets deemed excessively risky for the Issuer soundness, on restrictions to the payment of dividends to shareholders and distributions by the Issuer relating to certain instruments issued thereby as well as on supplementary disclosure obligations. Accordingly, in addition to the above mentioned minimum capital requirements relating to the CET1 Ratio, the ECB asked the Issuer: (i) for restrictions on the payment of dividends and distributions on shares and other financial instruments issued thereby, (ii) to continue with the initiatives aimed at dealing with non-performing exposures ("**NPE**"), together with restructuring initiatives, including aggregation transactions, (iii) for the enhancement of strategies and processes to assess, maintain and distribute internal capital, with specific reference to some specific SREP findings, (iv) to take initiatives aiming at effectively monitoring and guaranteeing on an on-going basis, the capital adequacy of subsidiaries MPSCS and MPS Leasing & Factoring S.p.A., as well as the implementation of corrective measures to comply with regulatory limits imposed on Large Exposures; and (v) for the implementation of a documented liquidity risk and funding strategy within 28 February 2016.

The SREP Decision 2015 further contained the supervisory authority's request to the Issuer to submit, within one month after having received the decision, a Capital Plan for the purpose of achieving a 10.75 per cent. CET1 Ratio by 31 December 2016.

On 23 December 2015, BMPS submitted to the ECB the Capital Plan 2015, as resolved by the board of directors of BMPS on 17 December 2015, which did not provide for extraordinary measures to achieve a 10.75 per cent. CET1 Ratio by 31 December 2016 as required in the SREP Decision 2015, since updated forecasts for the period 2016-2018 confirmed, in the opinion of BMPS, the Bank's capital adequacy, allowing for a buffer over the projections horizon.

After the completion of the risk assessment conducted in the context of the SREP 2015, by letter dated 7 December 2015, the ECB asked the Bank to adopt a risk mitigation programme, in consideration of the 8 observations expressed in the same letter and the corresponding recommendations. The Bank replied to the authority's requests with letter dated 15 April 2016, further to the board of directors' resolution of 20 January 2016, illustrating the actions identified to deal with such recommendations, to be adopted in compliance with the specified deadlines. ECB's observations were merely of organisational, process, internal regulation, control and monitoring nature. As at 31 December 2016, remedial actions were all fully completed in compliance with the requested deadlines.

Findings of CONSOB Investigations on the Financial Statements 2014 and the half-year financial report as at 30 June 2015

On 11 December 2015, by resolution no. 19459, after completing its investigation, CONSOB found that the consolidated and individual financial statements for 2014 and the half-year report as at 30 June 2015 were not compliant with the rules governing the relevant drafting and, in particular, the application of IAS 1, IAS 34 and IAS 39 with exclusive reference to the accounting recognition ("at open balances" or "at closed balances") of the items referring to the "Alexandria" transaction (as described above). In relation to the above, CONSOB requested the Bank to publicly disclose the following information: (i) a description of the international accounting standards applicable and the violations found in this respect; (ii) an illustration of the deficiencies and criticalities found by CONSOB in relation to the accounting accuracy of the individual and consolidated financial statements as at 31 December 2014 and the half-year financial report as at 30 June 2015; (iii) a disclosure suitable to represent the effects of the application of IAS 8 with reference to the errors

associated with the recognition, valuation and presentation of the transactions entered into with Nomura, providing an accounting representation of the transaction at closed balances with the posting of a credit derivative in accordance with the definition provided by paragraph 9 of IAS 39.

On 16 December 2015, in compliance with CONSOB instructions, the Issuer then published a press release, containing the information requested by the supervisory authority and to which reference is made for further details, and available to the public on the Issuer's website, www.gruppomps.it.

Assignment of non-performing loans to Epicuro SPV

On 28 December 2015, BMPS communicated to have entered into an agreement for the assignment with no recourse of a portfolio of non-performing loans comprised of approximately 18,000 loans for a gross book value of around Euro 1 billion to Epicuro SPV S.r.l., a special purpose vehicle funded by companies affiliated with Deutsche Bank. Non-performing loans being assigned were mainly unsecured, relating to corporate counterparties and for the great majority became non-performing prior to 2009.

2016

Securitisation of MPS Leasing & Factoring S.p.A.

On 21 January 2016, MPS Leasing & Factoring S.p.A. finalised a securitisation transaction of performing leasing loan portfolio by Euro 1.6 billion.

Agreement on second level bargaining

On 26 January 2016, the new level II bargaining entered into with all trade unions present within the company was ratified by employees' meetings. The agreement assures the rationalisation of the costs envisaged by the New Targets and implements the commitments given to the European Commission in the context of the Restructuring Plan, contributing to the change and enhancement track commenced by the Bank. Furthermore, the new level II bargaining contains new provisions relating to variable remuneration, support measures for personal (company welfare) and professional development which, in an overall sustainability framework, interact with cost containment, social equity and internal mutuality actions.

Approval of Financial Statement 2015, Remuneration Report and "performance shares" plan

On 25 February 2016, the board of directors approved the draft individual financial statement 2015 and the consolidated financial statement 2015. On 14 April 2016, the individual financial statement 2015 was approved by the shareholders' meeting which, on such date, also approved (i) the remuneration report, provided for by article 123-*ter* of the Consolidated Finance Act, and (ii) the "performance shares" plan, pursuant to article 114-*bis* of the Consolidated Finance Act, in favour of the Group employees.

Findings of ECB's thematic review on risk governance and appetite

On 3 March 2016, the ECB notified the Issuer of the findings of the thematic review on the functioning of the bodies with strategic supervision and management and control functions as well as on the RAFs, conducted in 2015 for all significant Euro-area entities.

The findings of such analysis were included in the SREP decisions for each entity subject to the SSM and were to be taken in due consideration in future assessments of professionalism and integrity requirements.

In particular, the investigation conducted by the ECB on the Issuer highlighted, *inter alia*:

- in respect of the board of directors, the recommendation to raise the competence and expertise of the same board in respect of risk management, control and back office activities, enhancing the appointment procedure of its members, and to review the functioning mechanisms of internal board committees, in particular the risk committee, in respect of the role and guidance by the chief risk officer; and

- in respect of the risk appetite framework, the indication that the RAF model shall be fully implemented by the first quarter 2016, effectively integrating it in the governance and risk management processes for the purpose of allowing an adequate determination and monitoring of business results.

Furthermore, at the end of the thematic review, the ECB expressed 10 observations and corresponding recommendations in respect of specific criticalities found in the context of the investigation, and specified, for each such observation, the deadline by which the relating remedial actions identified by the Bank shall be implemented.

On 7 April 2016, the Issuer provided the authority with a response, indicating the measures it intended to adopt. As at the date of the Base Prospectus, remedial actions are almost entirely completed in compliance with the deadlines requested and evidence of implemented remedial actions have been provided to the supervisory authority.

Detailed information on the 10 findings and the relevant recommendations detected by the thematic review are set out below together with the remedial actions identified by the Issuer and to be realised in compliance with the specified deadlines. As at the date of this Base Prospectus all envisaged interventions have been completed, except for part of the recommendations of finding no. 4 relating to internal regulations deliberative aspects, the completion of which is scheduled for 31 October 2017.

Finding	Recommendations	Remedial actions (RA)	Deadline
# 1 Composition of the Board of Directors limited expertise and competences	1) Identify possible gaps in the areas of competence 2) Draft an action plan to address each gap found both at individual and collective level 3) Implement and update policies so to assure the coverage of the necessary competences	Update of the self-assessment process regulation introducing stricter criteria in the assessment of requirements and reference to the coverage of areas of competence	31-05-2016
# 2 Consideration of reputational aspects in the board members appointment procedure	Put in place adequate measures and ensure that all Board of Directors members possess the necessary integrity and fairness requirements meeting the suitability requirements defined by the EU legislation (CRD IV and EBA)	Supplement to the Board regulation dedicating more focus on the phases concerning the assessment of integrity, professionalisms and fairness requirements	31-03-2016
# 3 *Checks and balances*: ensure direct and limitless access by the CRO to the Board of Directors and risk committee	1) Assessment of possible impediments to the CRO's involvement in the main decisions concerning risks and identification of solutions 2) Update of internal regulations 3) Realisation of policies ensuring the CRO's entitlement to dialogue with the Risk committee without the contextual presence of the CEO	− Review of the Risk Committee Internal regulation (1030D01788) − New version of the internal control system policy (1030D00793) − Regulation no.1 BMPS Organisation (1030D00751)	31-05-2016
# 4 Involvement	1) Identify the list of documents and	− Overview of the main internal	1) 2) 6) 31-03-

of the Board of Directors in the approval of internal regulations relating to risks and risk management	regulations for the detection, management, monitoring and mitigation of risks 2) Analyse the adequacy of the approval level of such documents and regulations 3) Adapt the approval level where necessary 4) Assign a fix frequency for the regulations review 5) Where not already in use, assign a version number evidence to the documents under item 1) 6) Prepare an action plan to define interventions planned and the related realisation deadlines	documents governing the detection, management, monitoring and mitigation of risks − Review of the adequacy of the internal approval level − Adaptation of regulations where necessary − Assignment of a predetermined frequency for the update of regulations relating to the main risks	2016 3) 4) 5) 31-12-2016
# **5** Reporting risk	1) Review of the structure and contents of the main reports taking account of the characteristics of addressees 2) Adaptation of risk reporting taking account of what was detected under the preceding item and provide an overview of interventions carried out	1) Production of risk reports differentiated by different addresses 2) Design of a specific dashboard incorporating the new Board of Directors approved set of metrics	30-08-2016
# **6** Interaction among internal board committees	Insufficient interaction found between the BoD and internal committees. It is asked that mechanisms are put in place to facilitate an effective interaction among the Board of Directors's internal committees	New actions and incremental implementations of operational practices Board of Directors Resolution of 07-04-2016.	31-03-2016
# **7** RAF: internal regulation and monitoring (dashboard)	1) Formalisation of the RAF in an organic body of regulations and processes 2) Implementation of a specific tool to monitor the RAF and the reporting to	− Drafting of the RAF Guidance − Although the RAF dashboard in place already contains a broad set of risk metrics, the 2016 dashboard sees the introduction of	30-06-2016

	corporate bodies	further quantitative metrics and for 2017 specific qualitative indicators will be introduced	
# 8 RAF: perimeter, metrics and limits	1) Optimize the perimeter of risks covered by the RAF and broaden metrics so to ensure the coverage of the Bank's risk profile; consideration of qualitative measures of risks and definition of relevant thresholds by appetite, capacity and tolerance 2) Accurate definition of the relevant limits and integration thereof in the main Bank's processes and declined by BU and legal entity	− A first set of quantitative detail risk indicators has already been included in the RAF approved in December 2015 − the RAF 2017 will include qualitative indicators − Limit system included in the RAS 2016	30-04-2016
# 9 RAF: governance	1) Complete the definition and allocation of competences and responsibilities of the main stakeholders involved in the process 2) Periodic monitoring and review by corporate bodies, escalation processes and independent validation	1) Review of the definition and allocation of competences and responsibilities – new RAF guidance 2) No further interventions are proposed as regards item 2)	30-04-2016
# 10 RAF: risk appetite and strategies	1) Determine a consistent logic and chronological sequence in the RAF process	1) The current RAF process has been deemed in line with the recommendation	31-03-2016
	2) Ensure consistency between RAF and strategic management of each risk category	2) Consistency between RAF and strategic size for each risk is assured by the Board of Directors and specific documents	30-04-2016
	3) Introduction of linkage between RAF and corporate remuneration system	3) No further interventions are proposed	30-06-2016

Inspections 2016

During the period January-May 2015, an ordinary investigation was conducted by the ECB and the Bank of Italy in relation to the credit risk and the loan portfolio and the relevant final "follow-up" letter was sent to the Bank on 30 November 2015 with 31 recommendations provided by the

investigation bodies and to which the Bank formally responded on 20 January 2016 indicating the relevant remedy actions identified. Such actions are of organisational, internal regulation, process and control nature, as well as of structural enhancement of supporting IT tools. The great part of such actions have already been completed in compliance with the timetable set in terms of deliverable, while, for a marginal portion, the relating full deployment is still in progress in consideration of the complexity of the solution adopted.

In particular, the recommendations addressed by the authority to the Issuer relate to six macro-areas, as specified below:

- *Ordinary loans*: (i) loan classification and adequacy of provisions in compliance with the new policies; (ii) timely identification of impaired positions; (iii) reduction of the managers' directionality for classification of loans and write-downs; (iv) update of collaterals' informative basis; (v) completion of organizational and procedural changes within the monitoring of first tier credit; and (vi) enhancement of monitoring tools concerning moratorium exposures and "restructured exposures";

- *Problem loans*: (i) completion of the review of recovery strategies and consequent internal reorganisation and rationalization of external legal advisors; (ii) introduction of new processes for the reduction of disbursement and recovery times; (iii) completion of the integration at Group level of the credit monitoring and recovery process; and (iv) update of policies;

- *Accounting aspects*: provisioning policies and improvement of the relation between management and accounting systems;

- *Risks*: (i) enhancement of the monitoring of second tier credit also at Group level; and (ii) recalibration of risk parameters of the internal model for calculating collective provisions;

- *Regulation*: update and implementation of policies, operational guidelines and standards associated with the new credit classification and assessment rules; and

- *IT*: improvement of IT systems as support of the credit and credit risk management process.

For the purpose of implementing the necessary actions in response to the observations raised further to the aforementioned investigations, the Issuer internally activated a programme called ARGO 2, established on 14 January 2016, for the purpose of responding to the 31 recommendations notified to the Bank by the ECB letter dated 30 November 2015 ("***ARGO 2***"). The remedy action plan agreed with the ECB provided for the completion of all activities within 31 December 2016, with the exception of remedy action no. 31 (relating to the structural architectural review of the credit support IT systems); in this respect 30 June 2017 was set as deadline to achieve important improvements in the context of credit support instruments, such as the unification of the management of the special loans within the mortgage management system, rationalization and alignment of instruments for the documentary management of the loans, extension of the loan's monitoring activity to the Unlikely to Pay Loans, creation of a sole data warehouse of the loans along with the introduction, in particular, of the so called "Loan Data Tape" (*vista di analisi dedicata*) for the Impaired Loan, enhanced with information related to the Unlikely to Pay by the end of 2017, with an overall deadline for the remedial action by the end of 2018, as indicated into the road-map set out on 31 March 2016.

Amongst the 31 recommendations having a deadline scheduled for 31 December 2016, as of 31 March 2017, two of them were not completed.

More information on the activities associated with the requested remedial actions are set out in paragraph "*2017*" below (paragraph "*ARGO 2*").

During the period September 2015-January 2016 an ordinary investigation was carried out by the ECB and the Bank of Italy concerning the Bank's governance and the risk management system, OSI 3233. On 28 February 2017, the Bank received the relevant follow up letter. The ECB, in this respect, highlighted some improvement areas associated with the risk management system and the organisational aspects thereof, for which the Issuer has already undertaken the requested mitigation actions.

In May 2016, the ECB and the Bank of Italy began an inspection (OSI 1238) within the Bank concerning credit and counterparty risk and the control system that ended in February 2017 (more information is set out in paragraph "*2017*" (paragraph "*OSI 1238 Inspection*").

Furthermore, on 25 September 2015, the internal model investigation relating to internal operational risk advanced models ("**AMA**") was closed. On 2 February 2017, the Bank received the relevant follow up letter whereby the ECB expressed its positive opinion on the progresses of the AMA model implemented by the Group, identifying several corrective actions for the enhancement of certain methodologies aspects. The Group communicated to the ECB that during the first six months of 2017 it has addressed and solved all the actions in accordance with the manners required by the ECB. As at the date of this Base Prospectus, the Issuer believes to have implemented all the actions required and that the activity can be considered completed, subject to an official confirmation by the ECB.

During the period September-December 2016, the Bank of Italy carried out a verification activity within sample branches of the Bank for the verification of compliance with the provisions relating to transparency of contractual conditions and the fairness of the relationships with retail customers, pursuant to article 128 of the Italian Banking Act. In a note dated 28 August 2017, the Bank was informed of the findings of the investigation activity, and six observations were expressed, in respect of which the supervisory authority has requested to provide structured and precise clarifications within 60 days of the receipt thereof, reserving to express further evaluations in respect of the responses received. Along with such requests, the Bank was asked for further clarifications about certain conducts that have been subject to petitions received by the authority. On 27 October 2017, the Bank delivered the clarifications requested as well as the indication of the remedy actions deemed necessary, including those with compensatory character. The authority will evaluate them.

Furthermore, the supervisory authority notified to the board of directors the findings of the aforementioned inspection, pointing out several improvable areas, relating in particular to: the identification of politically exposed persons; the risk evaluation process; the adequate test; the internal control. On 27 October 2017, the board meeting approved the contents of the reply letter for the Bank of Italy, which will be sent by the terms indicated thereof.

Assignment of non-performing loans to Kruk group

On 23 June 2016, BMPS entered into an agreement for the assignment without recourse and in block of a non-performing loan portfolio to Kruk group. The portfolio comprised more than 40,000 loans for a gross book value of approximately Euro 290 million (approximately Euro 350 million, including delayed interests accrued and/or other charges assigned together with principal). Non-performing loans assigned were consumer credits, personal loans and credit cards, unsecured, originated by Consum.it S.p.A., which was incorporated into BMPS in 2015. The assignment determined a slightly positive impact through profit or loss and had no significant effects on BMPS' capital ratios.

Draft ECB decision on Impaired Loans and liquidity

On 23 June 2016, the ECB sent BMPS a letter through which it notified the intention to request the Bank to comply with certain requirements relating, in particular, to impaired loans and liquidity. Such requirements were set out in a "draft" decision, in respect of which the Bank was granted the possibility to submit its arguments by 8 July 2016. In more details, the "draft" decision included a table – set out below – according to which the Bank shall reduce non-performing loans over the next three years and achieve the specified parameters.

(data in Euro billion)	***31 December 2015***	***2016***	***2017***	***2018***
NPLs – Gross Exposure	46.9	Max 43.4	Max 38.9	Max 32.6
NPLs – Net Exposure	24.2	Max 21.8	Max 18.4	Max 14.6

The "draft" decision also requested for the ECB to be provided by 3 October 2016 with a plan defining what measures may be adopted by the Bank to reduce the total non-performing loans/ total loans ratio (NPL ratio) to 20 per cent. in 2018.

In relation to liquidity, the ECB requested BMPS for a clear definition of the strategic asset encumbrance targets for each of the next three years until 2018, by sending, at the beginning of each year, a detailed funding plan describing the actions for achieving the targets. Furthermore, such target levels shall be set in a manner such as to obtain a constant asset encumbrance reduction throughout the plan. In addition, the ECB requested a detailed analysis containing an estimate of expected liquidity benefits, to make encumberable the majority of assets currently classified as unencumberable.

In relation to the actions planned by the Issuer with respect to Impaired Loans and liquidity, reference is made to what specified in the paragraphs below relating to the Precautionary Recapitalisation and the Restructuring Plan. The ECB notified to the Bank its approaches concerning the Group NPL Portfolio in the context of the SREP Decision received by the Bank on 19 June 2017.

Payment of the New Financial Instruments

On 1 July 2016, BMPS communicated that the MEF informed the Bank that it would have paid on such date (being the scheduled deadline) interests accrued on the New Financial Instruments redeemed on 15 June 2015 in cash for an amount equal to Euro 45,994,309 and relating to the financial year 2015; such payment was not in line with BMPS' opinion, which intended to fulfil the relevant payment obligation by way of assignment of shares (as occurred in 2015). Such payment had no impact on the Group's capitalization.

For more information on the redemption of the New Financial Instruments, reference is made to "*2015*" above.

Plea bargaining request before the Courts of Milan

In respect of the criminal proceeding relating to the investigations on the "FRESH 2008", "Alexandria", "Santorini" and "Chianti Classico" transactions, on 2 July 2016 BMPS submitted, with the consent of the Public Prosecutor's office, a plea bargaining request in the criminal proceeding pending before the Milan PHJ, in respect of the allegations brought against the Bank pursuant to Legislative Decree 231/2001 for administrative liability of entities depending on crimes. The predicate offences of the Bank's administrative liability concerned cases of false corporate communications, market abuse and obstruction to supervision and were exclusively charged to the former management for the period between 2009 and 2012. With the plea bargaining request, upheld by the Milan PHJ on 14 October 2016 with application of the penalty agreed upon, the proceedings relating to the administrative offence consequent to the crimes committed by its former top managers – limiting the consequences to a monetary administrative sanction of Euro 600,000 and a confiscation for Euro 10 million – was concluded for the Bank. In the same proceeding the Banks also appeared as civil plaintiff against the former directors and managers in office at the time of events.

In addition, it should be noted that, on 1 October 2016, the PHJ ordered the indictment of defendants other than the Bank. At the hearing of 15 December 2016, held before the second criminal section of the Courts of Milan, further to the request as civilly liable parties of the banks MPS, Nomura, Deutsche Bank, around 1,500 civil plaintiffs served on the Bank the civilly liable summon in respect of the crimes charged to indicted former directors and managers. During the course of the trial, with order of 6 April 2017, the Courts of Milan ruled on the exclusion request of civil plaintiffs filed by defendants and civilly liable parties, excluding certain civil plaintiffs. The civil action brought by the Bank against Giuseppe Mussari, Antonio Vigni, Daniele Pirondini and Gian Luca Baldassarri was also dismissed on the assumption of a Bank's liability for complicity with the defendants. As at the date of this Base Prospectus, around 1,250 civil plaintiffs appeared against the Bank.

Positive outcome of the questioning filed in April 2016

On 21 July 2016, the Bank received from the tax authority a favourable response to the questioning filed in April on the tax materiality of certain components of the restatement of the "Alexandria" transaction which was made in the Financial Statement 2015. In this respect, it should be noted that the restatement made in Financial Statement 2015, although with neutral pre-tax overall economic effect, involved a different allocation of income components associated with the transaction in the

time period 2009-2015, compared to the original recognition and that in Financial Statement 2015 the restatement tax effect was represented considering as non-fiscally relevant some negative income components, by virtue of a first and restrictive interpretation of the circular TA 31/2013. By virtue of the response to the above questioning, the Bank posted to profit or loss of the 2016 half-year report (tax item line) the corresponding income, equal to Euro 133.9 million, mainly off-setting deferred tax assets.

Corrado Passera and UBS Letters

On 28 July 2016, BMPS received two letters, one from Corrado Passera and one from UBS, containing proposals concerning the Bank; on 29 July 2016, the board of directors analysed the content of such letters and deemed that, as at such date, there were no conditions for pursuing the matters set out in such letters.

On 12 October 2016, Corrado Passera sent a new letter to the board of directors (which was received on 13 October 2016), setting out a non-binding proposal relating to the potential capital enhancement of the Bank. On 13 October 2016, the board of directors granted a mandate to the chief executive officer to begin the necessary in-depth analyses. The following conversations, and exchange of letters, had no positive outcome, since the parties were not able to reach an understanding on the terms and conditions of the disclosure of confidential information (although not privileged). On 1 November 2016, Corrado Passera sent the Bank's board of directors and the board of statutory auditors a letter (disclosed to the market) explaining the reasons leading him to withdraw the non-binding proposal: in fact, in Corrado Passera's opinion, the minimum conditions to conduct the normal process aimed at making definitive and binding the proposal submitted thereby have been denied. Also, on 1 November 2016, the Bank acknowledged Corrado Passera's decision, specifying in the relating press release that "*… it regrets Mr. Passera's decision, which* the board *deems based on arguments ungrounded and incompatible with the applicable legislation*" (see press release of 1 November 2016, available on the website www.gruppomps.it).

Outcomes of EBA's stress test and definition of the 2016 Transaction's features

On 29 July 2016, the EBA disclosed the outcome of the stress test for 2016 (the "**Stress Test 2016**") which, for BMPS, highlighted, in the "adverse" scenario, a 2018 transitional CET1 equal to -2.2 per cent., while in the "baseline" scenario the 2018 CET1 was confirmed at 12 per cent..

The Stress Test 2016 did not set out a success/failure threshold, but was instead designed as a significant informative element in the context of the 2016 supervision process. The outcomes were then used by the competent authorities to assess the Bank's capacity to comply with regulatory constraints in stressed scenarios on the basis of common methodologies and assumptions. The adverse stress scenario had been designed by the ECB/ESRB and covers a three-year horizon (2016-2018), assuming a static financial statement starting from December 2015, and hence disregards changes in the business strategy, or other actions the Bank may put in place.

On 29 July 2016, the board of directors approved the guidelines of a transaction structured in a series of activities functionally connected among each other (the "**2016 Transaction**" and/or the "**Transaction**") and, in particular:

- derecognition of part of the non-performing loan portfolio of the BMPS Group through a securitisation structure;
- capital increase with share premium to be offered to shareholders on a pre-emptive basis of the amount of maximum Euro 5 billion (the "**Capital Increase**"); and
- a further capital increase with exclusion of option rights to service the warrants which will be issued in favour of the Atlante Fund versus the subscription of mezzanine notes.

Furthermore, in line with what preliminarily disclosed to the ECB, the transaction took into account the impact deriving from the 40 per cent. average coverage of loans classified under "Unlikely to Pay" and "Past Due Impaired Loans".

On 28 July 2016, the Issuer entered into with Quaestio SGR a memorandum of understanding aiming at analysing the phases of the possible participation of Quaestio SGR, on behalf on one of the two funds managed thereby, in the securitisation and setting some shared terms and conditions as at such date between the parties in relation to such participation.

On 29 July 2016, the ECB authorised the Bank to integrally exclude the impacts on LGD models deriving from the derecognition of part of the non-performing loans portfolio upon condition that the transaction was completed in all its components as described above.

As part of the transaction, J.P. Morgan and Mediobanca, acting as joint global coordinators and joint bookrunners, and Banco Santander, BofA Merrill Lynch, Citigroup, Credit Suisse, Deutsche Bank, Goldman Sachs International, acting as co-global coordinators and joint bookrunners, entered into a pre-underwriting agreement concerning the commitment to enter into an underwriting agreement for unsubscribed newly issued shares, for a maximum amount of Euro 5 billion reduced by an extent equal to: (a) the value of the shares possibly subject matter of irrevocable subscription commitments given by qualified and/or institutional investors prior to the signing date of the underwriting agreement, (b) the value of the shares possibly subject matter of guarantee commitments given by other financial institutions which may join the guarantee syndicate, and (c) the value of newly issued shares to be destined to institutional investors which have subscribed for the liability management exercise ("**LME**") and the subscription of which may not be subject to withdrawal right pursuant to article 95-*bis*, subsection 2 of the Consolidated Finance Act.

The commitment to sign the guarantee agreement was subject to conditions in line with the market practice for analogous transactions as well as other conditions more related to the conditions of the Italian banking market in general and, more in particular, those of the Bank and the Group.

On 23 November 2016, the ECB released the necessary authorisations for the purpose of the transaction, although subject to the condition subsequent of the compliance with certain legislative requirements and the completion, by certain dates, of some parts of the transaction. On the same date, the Bank of Italy, with measure no. 1399807/16 issued the preliminary assessment measure concerning the statutory amendments associated with the Transaction.

As part of the Capital Increase – provided for in the context of the transaction disclosed to the market on 29 July 2016 and the features of which have been subsequently approved by the Issuers' board of directors with resolution of 24 October 2016 – the Issuer launched a LME transaction, which consisted of a tender offer on LME securities launched by the Bank with the adhering party's obligation to destine the consideration for the subscription of the new LME shares, which closed on 2 December 2016 with the following final results:

	LME domestic offer	LME institutional offer
Value of tendered LME securities (*)	Euro 229,572,000	Euro 793,169,000

(*) Tenders are expressed in the terms of nominal value/liquidation preference of LME securities tendered in the context of LME offers.

Resignations of the Chief Executive Officer and Chairman

On 8 September 2016, the Bank's board of directors and the former chief executive officer Fabrizio Viola agreed on the opportunity of a turnover in the Bank's top management and, accordingly, the process for the succession of the chief executive officer was launched. Subsequently, on 14 September 2016, the Bank's board of directors unanimously approved the appointment of Mr. Marco Morelli who, as of 20 September 2016, took on the role of chief executive officer and general manager.

Furthermore, on 14 September 2016, Massimo Tononi resigned from its role as chairman and member of the Bank's board of directors as of the end of the shareholders' meeting called to approve the preparatory activities for the implementation of the transaction which was held on 24 November 2016.

Approval of the new business plan and summon of shareholders' meeting

On 24 October 2016, the board of directors approved the new business plan, which – *inter alia* – amended the Restructuring Plan and called the Bank's extraordinary shareholders' meeting for the purpose of approving the necessary resolutions to carry out the transaction.

On 24 November 2016, the Bank's extraordinary shareholders' meeting resolved on:

(i) the approval of the Issuer's capital situation as at 30 September 2016 and the coverage of the overall loss of Euro 1,636,082,770.63 through a capital reduction of a corresponding amount;

(ii) the approval of the grouping of BMPS' ordinary shares;

(iii) the granting to the board of directors of a delegation, pursuant to article 2443 of the Italian Civil Code to increase for cash consideration, even in more tranches, on one or more occasions and by single tranches, the share capital, with exclusion or limitation of options rights pursuant to article 2441, subsection 5, of the Italian Civil Code for a maximum total amount of Euro 5 billion inclusive of possible share premium.

In relation to the delegation under item (iii) above, it should be noted that, on 24 November 2016, the board of directors partially used the delegation pursuant to article 2443 of the Italian Civil Code granted thereto by the shareholders' meeting and adopted all necessary resolutions to implement the LME and the capital increase.

On the same date, the Bank's shareholders' meeting in ordinary session, approved – *inter alia* – the appointment of: (i) the already co-opted director Mr. Marco Morelli as member of the Bank's board of directors; (ii) prof. Maximum Egidi as member of the board of directors; and (iii) Mr. Alessandro Falciai as chairman of the board of directors.

Juliet Transaction

The Bank's board of directors on 14 November 2016 resolved to accept Cerved Group S.p.A. 's ("**Cerved**") binding proposal in the context of a competitive procedure launched by the Bank itself for the purpose of entrusting to a specialised manager the special servicing activity (i) of BMPS and other companies of the BMPS Group's Impaired Loans which did not fall within the NPL Portfolio and were therefore not subject to the Securitisation; and (ii) of a significant percentage - equal to 80 per cent. - of future BMPS and other companies of the BMPS Group's Impaired Loans.

The "Juliet" transaction – according to what was disclosed by the Bank's board of directors on 14 November 2016 – should have been realized through the assignment to Cerved (or one of its subsidiaries) of 100 per cent. of a Newco, to which BMPS should have entrusted the management – pursuant to a 10-year special servicing agreement – of the above-mentioned loans.

In the context of such transaction, it was further provided for the sale purchase agreement – to be entered into between the Issuer and Cerved by the first quarter 2017 – to be subject to the following conditions precedent: (a) the application of the trade union procedure in respect of transferred and/or seconded employees; (b) the release – in favour of the Newco – of the authorisation pursuant to article 115 of the Consolidated Text of Public Safety Laws; (c) the release of the authorisations required by the Bank of Italy and/or ECB; (d) the payment in favour of the Bank by SPV1 of the assignment price of the NPL Portfolio; and (e) the full subscription of the Capital Increase.

Subsequently, on 28 February 2017, the Bank and Cerved disclosed that, as regards the Juliet Transaction, the conditions precedent, contractually provided for the perfection thereof, have not been satisfied within the deadline of 28 February 2017 and, accordingly, the agreement referred to Project Juliet shall have been deemed without effects.

Assignment of the equity interest in Bassilichi S.p.A.

On 6 December 2016, ICBPI entered into an agreement for the acquisition of up to 100 per cent. of the company Bassilichi S.p.A. – a specialized operator in the context of payments and business oriented services – of which the Issuer hold a 11.74 per cent. stake.
In particular, the equity interest in the company Fruendo S.r.l., of which Bassilichi S.p.A holds a 60 per cent. stake, a company active in the back-office services for the banking sector, was not included in the assignment transaction as well as other minor equity interests.

Furthermore, the interest in Fruendo should have contributed to a new holding, in which the Issuer would have held a 10 per cent. stake of the capital as well as ICBPI, while the remaining 80 per cent. of the newly incorporated holding capital would have been held by banks and other financial intermediaries. The holding incorporation transaction is conditional upon the closing of the acquisition transaction by ICBPI of up to 100 per cent. of the company Bassilichi S.p.A., scheduled for the first semester 2017, and the necessary regulatory authorisations.
More information on the perfection of the assignment to ICBPI of the interest held in Bassilichi S.p.A. are set out in paragraph "*Assignment of the "Merchant Acquiring" Business and the equity interests held in Bassilichi S.p.A. and Consorzio Triveneto S.p.A.*" below.

Constitutional referendum of 4 December 2016 and outcomes of the 2016 Transaction

On 4 December 2016, voting operations relating to the constitutional referendum were carried out in Italy, at the end of which the constitutional law subject matter of the referendum was not confirmed. Such voting result triggered a government crisis, which led to the resignations of the Chairman of the Council of Ministers.
The situation of uncertainty which was generated thereof entailed a slow-down of the negotiations in progress with some institutional investors. For this reason, on 7 December 2016, the Issuer requested the ECB to postpone to 20 January 2017 the final deadline by which the Global Offer should have been launched (the "**Extension Request**").
Furthermore, on 11 December 2016, the members of the syndicate acting as Global Coordinators and the Bank entered into an agreement based on which the pre-underwriting Agreement was terminated. Subsequently, the Bank entered into an agreement with the joint bookrunners (the "**Agreement**") by virtue of which the latter undertook to negotiate in good faith the terms and conditions of an agreement upon the occurrence of certain conditions (the "**Placement Agreement**"). By way of the Placement Agreement the joint bookrunners did not give any underwriting commitment, but assumed the sole settlement risk i.e. the joint bookrunners undertook to subscribe for the new shares already previously allocated, but subsequently not subscribed for as at the relevant payment date (net of the new shares subscribed for in the context of the LME offers and those possibly subscribed for by the Italian Government).

Having acknowledged the above, the Issuers' board of directors, deemed it in the interest of the Bank, to (i) proceed in any case with the transaction, (ii) extend, without prejudice to the conditions set out in the relevant offering document, the acceptance period of the LME offers starting from 9:00am of 16 December 2016 until 2:00pm of 21 December 2016, and (iii) launch an offer, solely addressed to qualified investors, pursuant to article 34-*ter*, subsection 1, letter b) of the Issuer's regulation, even on the FRESH 2008 securities, recognising to the holders of such securities an amount equal to 23.2 per cent. of the related nominal value per each security converted thereby, with the obligation for those accepting such offer to reinvest such amounts in new LME shares, as per the other LME offers.

On 13 December 2016, the ECB informed the Bank of a draft decision by which it communicated to have denied the Extension Request submitted by the Issuer, confirming 31 December 2016 as the final deadline to complete the full transaction. The impossibility of any postponement of the final deadline to complete the Transaction – in light of ECB's denial of the Extension Request submitted by the Issuer on 7 December 2016 – added another element of uncertainty on the completion of the Transaction, in addition to those already described in the Base Prospectus and in the LME securities Note.

Precautionary Recapitalization

On 26 December 2016, the Bank communicated to have acknowledged the impossibility to complete the Transaction disclosed to the market on 25 October 2016 and then authorised by the ECB and the Bank of Italy on 23 November; as a consequence, the Bank communicated to have sent, on 23 December 2016, to the ECB an extraordinary and temporary financial support request for the access to the so called "Precautionary Recapitalization" scheme.

On 23 December 2016, the Bank submitted to the Bank of Italy and the Ministry of Economy and Finance an application for the admission to the State guarantee provided for under article 7 of the Law Decree No. 237 of 23 December 2017 (the "**Decree 237**"), for the purpose of being granted the possibility to issue further State guaranteed liabilities.

The Bank then received from the Ministry of Economy and Finance two letters drafted by the ECB – addressed to the same Ministry – which, besides confirming the meeting of the necessary requirements to access the Precautionary Recapitalization, highlighted the following:

(i) in relation to consolidated data, the Bank is solvent as it complies with the minimum capital requirements set by article 92 of the CRR. Furthermore, the Pillar 2 requirements on capital are also complied with;

(ii) the outcomes of EBA's Stress Test 2016 (see paragraph "*Outcomes of EBA's stress test and definition of the 2016 Transaction's features*" above) highlight a shortfall, only in the case of adverse scenario, in the fully loaded CET1 parameter at the end of 2018 equal to 2.44 per cent., against an 8 per cent. threshold. According to the ECB such shortfall is represented by a capital demand equal to Euro 8.8 billion, inclusive of all Own Funds components provided for by the applicable legislation in force; and

(iii) the Bank's liquidity position witnessed a swift deterioration between 30 November and 21 December 2016, as highlighted by the significant decrease of counterbalancing capacity (from Euro 14.6 to 8.1 billion) as well as of one-month net liquidity (from Euro 12.1 – 7.6 per cent. of total assets – to 7.7 billion –4.78 per cent. of total assets).

The Bank then began conversations with the competent authorities for the purpose of understanding the methodologies used by the ECB for its calculations and implementing the Precautionary Recapitalization.

2017

<u>Granting of State guarantee</u>

On 20 January 2017, the Bank communicated to have obtained from the Ministry of Economy and Finance the granting of a state guarantee in support of the access to liquidity pursuant to Decree 237 and, accordingly, launched the preparatory activities for the issuances of State guaranteed securities.

On 25 January 2017, two issuances of State guaranteed securities were launched for an overall amount of Euro 7 billion. In particular, the features of the first issuance were maturity 20 January 2018, coupon 0.5 per cent. and nominal amount Euro 3 billion; while the features of the second issuance were maturity 25 January 2020, coupon 0.75 per cent. and nominal amount Euro 4 billion.

On 15 March 2017, the Bank carried out a further issuance of State guaranteed securities, with maturity 15 March 2020, coupon 0.75 per cent. and nominal amount Euro 4 billion.

All issuances were fully subscribed by the Bank upon issuance and subsequently placed in part on the market and, in part, used as collateral for financing transactions.

The guarantee granted by the Ministry of Economy and Finance provided on the side of the Bank for the possibility to realise, by 31 December 2017, an additional issuance of State guaranteed securities, for a nominal amount of Euro 4 billion and three years maturity.

<u>Shareholders' meeting of 12 April</u>

On 12 April 2017, the ordinary shareholders' meeting of the Bank approved:

a) the individual and consolidated financial statements ended on 31 December 2016. In particular, the Bank's individual financial statement ended with the posting of a Euro 3,722,770,706.06 loss, partially replenished by Euro 1,398,720,205.16, in light of the capital reduction resolution adopted by the extraordinary shareholders' meeting of the Bank on 24 November 2016;

b) the remuneration report provided for pursuant to article 123-*ter* of the Consolidated Finance Act;

c) the performance shares plan in favour of the Group's employees provided for pursuant to article 114-*bis* of the Consolidated Finance Act;

d) the proposal for the reduction of the number of members of the Bank's board of directors from 14 to 13.

The Bank's extraordinary shareholders' meeting, called to vote upon the share capital reduction proposal to cover for the residual loss as at 31 December 2016 (i.e. Euro 2,324,050,500.90) and upon the amendments to the by-laws, did not take place since the necessary quorum was not reached.

<u>*ARGO 2*</u>

In relation to the ARGO 2 programme – as set out more in detail in the paragraph "*Inspections 2016*" above – the monitoring as at 30 June 2017 has been transmitted to the ECB on 6 October 2017 and declares the completion of all the deliverables (meant as all the methodologies, organizational and/or IT solutions developed and adopted following specific planning actions) and the related put in operation (so called "deployment") as a response to the recommendations with deadline as at 31 December 2016, except for some of these associated with remedy actions no. 12 and no. 21, for which:

- in relation to remedy action no. 12 – relating to the update and upgrade of the informative bases for the purpose of including all relevant information on collaterals:
  - the Bank completed the digitization of documents, with contextual integration of the informative set, of the stock of mortgage loans granted between 2002 and the end of 2015 (starting from such date the process provides for this activity to be carried out at the time of the generation of the new flow) for a number equal to 253,000 out of a total of 380,000 loans, the great part of which (249,000) already entered in the Bank's informative bases, with the goal of completing entries by 2017;
  - the retrieval and digitization activities of the remaining 127,000 loans, the documents of which are stored with branches, is still in progress and its completion is planned by the end of the second semester 2017, while the implementation of the corrective actions in respect of the Bank's IT systems (extension of information set and data quality) is expected by the first quarter of 2018.
- in relation to corrective action no. 21 – relating to the integration of MPSCS and MPS Leasing & Factoring S.p.A. in BMPS' credit processes, including IT tools, for the purpose of assuring the correct application of policies at Group level – starting from February 2017, the tool used by the parent company for the computation of the analytic depreciation was adopted by MPSCS, while the deliverable relating to the extension of accounting management IT applications of the Bank's disputes to MPSCS, the relating interventions and planning is not yet completed as subordinated to the verification, which is still under process, of the consistency of the MPSCS business model with the strategic choices of the Restructuring Plan; the above is without prejudice to the fact that the actual reduction of the non-performing loan portfolio, which will remain after the completion of the assignment of the Impaired Loans, will significantly reduce the impact of the partial treatment inequality compared to the parent company.

In relation to corrective action no. 31, for which the plan of remedy actions agreed with the ECB provided for the completion during the 2018 (for more information reference is made to paragraph "*2016*" above), the activities functional to its resolution continue with the rescheduling of some deliverables (such as, without limitation, the "Modular Credit Line Electronic File" solution), which however do not prejudice the overall structural review plan of the IT platform planned within 2018. With reference to the deliverables closed, the Bank, as at the date of the Base Prospectus has not yet received the related closing declaration from the ECB.

<u>*OSI 1238 Inspection*</u>

In May 2017, it was closed and an on-site investigation was launched by the ECB and the Bank of Italy in May 2016 concerning credit, counterparty risk and the risk control system of Banca Monte dei Paschi S.p.A., MPSCS and MPS Leasing & Factoring S.p.A.. Specifically, such inspection's objective was to conduct a verification on the risk management process and on the internal control systems. To this end, the investigation team examined almost the entire overall Group's loan portfolio, with specific focus on:

1. classification of the performing loan portfolio;

2. verification of provisions created on the non-performing portfolio;

3. review of collateral values;

4. data quality review of credit risk;

On 7 June 2017, the ECB sent the Issuer the final report on such investigation activity highlighting several areas of improvement in the matter of identification of exposures to credit risk, classification, monitoring, reporting, organisation, data base and collateral management, policy and determination of provisions and specific disclosure to corporate bodies on the deterioration of credit quality. Some of the critical points highlighted have already been resolved/implemented in the course of 2016 with the ARGO 2 programme. Measures to be implemented to remedy the remaining deficiencies, in continuity with what has already been implemented in the past years to improve credit quality and the credit risk management process, are included in the assignment of the NPL Portfolio plan communicated to the market on 5 July 2017. In this respect, please further note that the Restructuring Plan fully transposes the findings of the investigation conducted by the ECB on the loan portfolio (CFR) as at 31 December 2015 which highlights further provisions to be created compared to the coverage levels as at the reference date. Such additional adjustments substantially overlap with those already recorded from 31 December 2015 to date, with the effects of the Assignment of the NPL Portfolio and with the increased coverages of the Impaired Loans portfolio provided for in the Restructuring Plan to facilitate such loans reduction process in the period 2017-2021. The residual impact equal to around Euro 0.26 billion is included in the projections of the first years of the Plan, in consideration of a prudential credit cost estimate. It remains understood that the mentioned differences of provisioning will be reflected in accounting insofar they will be matched with receivables events that will entail a reduction of expected cash-flows due to exposures and/or portfolios under investigations. Notwithstanding the above, at the date of this Base Prospectus, the Bank has not yet received the draft follow up letter from the joint supervisory team, along with the recommendations. The Bank does not believe that it is necessary to proceed, following such inspections, to further write downs on receivables, in addition to those already provided by the Restructuring Plan.

2017 TRIM 2939 Inspection

On 20 September 2017, with the letter received from the ECB and dated 18 September 2017, the Bank has been notified that, starting from 21 November 2017, in the context of the process of review of internal models (TRIM – Targeted Review of Internal Models) an on-site inspection, for the Bank and for the Group, will commence, focusing on the internal models on credit risk, with reference to the PD and LGD parameters and in the context of the perimeter of retail exposures – non PMI – assisted by real estate guarantees.

SREP annual process

By way of letter sent on 19 June 2017, the ECB notified to BMPS the SREP Decision, with which it notified the prudential requirements the Bank and its subsidiaries shall satisfy and other specific requests. The SREP was conducted with reference date as at 31 December 2016, taking also account of the information received after such date among which, specifically, the draft Restructuring Plan submitted by the Bank to the European Commission.

As regards the capital requirements, in relation to Total Capital, the following is required to be maintained on a consolidated basis as of 1 January 2018: i) a level of Total SREP Capital Requirement ("**TSCR**") equal to 11 per cent. (of which 8 per cent. as minimum Own Funds requirement pursuant to article 92 of the CRR and 3 per cent. as Pillar 2 capital requirement fully comprised of CET1) and ii) an overall capital requirement ("**OCR**") including, in addition to the TSCR, the Combined Capital Requirement pursuant to article 128 of CRD IV.

As a consequence, BMPS shall comply with the following requirements on a consolidated basis starting from 1 January 2018:

- 9.44 per cent. CET1 Ratio on a transitional basis;

- 12.94 per cent. Total Capital Ratio on a transitional basis,

including, in addition to P2R, 1.875 per cent. in terms of Capital Conservation Buffer and 0.06 per cent. in terms of O-SII buffer (Other Systemically Important Institution Buffer). The Capital Conservation Buffer and the O-SII Buffer will be at full steam respectively in 2019 with 2.5 per cent. and in 2021 with 0.25 per cent. (the latter on a transitional basis will have a 0.13 per cent. coefficient in 2019 and a 0.19 per cent. coefficient in 2020).

The SREP Decision introduced the capital guidance (so called "**Pillar 2 capital guidance**") equal to 1.5 per cent., as request to be fully satisfied with Common Equity Tier 1, in addition to the minimum CET1 regulatory requirement, to the additional Pillar 2 requirements and the Combined Capital Requirement. It should be noted that failed compliance with such capital guidance does not imply failed compliance with capital requirements.

In addition to the above mentioned quantitative requirements, the SREP identified qualitative measures in the matter of management of Impaired Loans and distribution of dividends. In relation to Impaired Loans, it should be noted that the Restructuring Plan incorporated the requests included in the SREP Decision and the findings of the ECB inspection closed in May 2017. In fact, with the almost total disposal of the NPL Portfolio (for a GBV of around Euro 26 billion as at 31 December 2016) and with a specific assignment/reduction programme of the unlikely to pay and non-performing loan portfolio, the economic effects of which are included in the Restructuring Plan, the Issuer expects to achieve a significant reduction on the impact of gross Impaired Loans over total loans (NPE ratio). The ECB requested the Issuer to provide, on a consolidated and quarterly basis, additional periodic information on Impaired Loans according with the standard provided by the supervisory authority. The first submission of the additional information has been requested by September 2017.

Further to the conclusion of the review process, the ECB highlighted some weakness profiles/focus areas mainly relating to: (i) the business model, with specific reference to the persistence of the Bank's low profitability and the insufficient capacity to create internal capital. In particular, it was pointed out a lack of ability to implement and carry out the strategy devised by the board of directors, for instance through practical commercial measures, which is also associated with a less favourable change of macroeconomic conditions than was expected. In the absence of any new strategies aimed at reducing the NPL and refocusing on profitable business areas, the high cost of risk and the persistent reduction in margins (influenced by the contraction of the volumes of funding and lending) will continue to materially affect the profitability and the generation of internal capital; (ii) the risk management system and organisational aspects judged still not fully adequate because awaiting to assess the mitigation activities already implemented by the Group; (iii) the credit quality in respect of the high and exceeding average NPLs level. In this respect, the supervisory authority highlighted that the Issuer did not manage to implement the NPL management strategy, submitted in 2015; (iv) the market risk in respect of some details linked to the measurement of the banking book's interest rate risk and the high sensitivity to credit spread of the government securities portfolio; (v) the operational risk in respect of the number of pending legal actions and the consolidation, deemed still weak although gradually improving, of the Group's reputation; (v) the risk associated with capital adequacy; (vii) the liquidity risk related to the volatility of commercial deposits and the Issuer's exposure to stress events, as observed in the last quarter of 2016 following the failure of the 2016 Transaction. The supervisory authority highlighted additional risk profiles associated with the BMPS' structural financial position, the rebalancing of which still depends on the implementation of extraordinary measures as set out in the Restructuring Plan, among which the capital enhancement and the Assignment of NPL Portfolio.

By means of the SREP Decision, the ECB further informed the Issuer that no additional capital requirements were requested compared to the minimum ones set by the current legislation in force for the following subsidiaries: MPSCS, MPS Leasing & Factoring S.p.A. and Wise Dialog Bank S.p.A.

However, the ECB introduced, to complete the SREP process, additional capital requirements, in line with article 16(2) of Reg. 1024/2013 for foreign subsidiaries, MP Belgio and MP Banque, as described below.

In relation to the subsidiary MP Belgio, the ECB required:

- as regards the capital requirements and the Total Capital, to maintain, on an individual basis: i) a level of TSCR equal to 10.25 per cent., of which 8 per cent. as minimum Own Funds requirement and 2.5 per cent. as Pillar 2 capital requirement fully comprised of CET1 and ii) an OCR including, in addition to the TSCR, the Combined Capital Requirement pursuant to article 128 of CRD IV;
- as regards the liquidity requirements to maintain, on an individual basis, the liquidity coverage ratio (LCR) of at least 100 per cent.;
- with respect to the qualitative requirements, to carry out all necessary actions aimed at diversifying the funding sources and reducing the dependency on the Bank as well as to update its governance memorandum to have processes allowing to comply with governance rules.

The SREP Decision introduced – in line with what was asked to the Bank on a consolidated basis – the capital guidance (so called "Pillar 2 capital guidance") equal to 1 per cent., to be fully satisfied with the Common Equity Tier 1, in addition to the sole minimum OCR regulatory requirement in terms of CET1 and not in addition to the Tier 1 and Total Capital OCR regulatory requirements (for which, accordingly, the requirements remain unchanged compared to OCR ones). It should be noted that failure to comply with such capital guidance would not equal a failure to comply with the capital requirements.

Following the conclusion of the SREP process on the subsidiary MP Belgio, the ECB highlighted some weakness and focus profiles mainly relating to: (i) a certain vulnerability of the business model caused by low profitability, excessive concentration of assets and liabilities and low diversification of assets, in particular, the first five deposits represent almost 50 per cent. of the overall deposits, while the first 25 credit exposures represent 37 per cent. of the overall credit lines; (ii) internal governance and risk management mainly concerning governance and control procedures aimed at verifying full consistency with MiFID regulation, in the field of investments in financial instruments that affect customers; (iii) credit risk in terms of concentration of assets, concentration on Italian Government securities and at a cost of risk higher than the reference Belgian market average; (iv) operational risks, in particular on IT systems, and reputational impacts deriving from the events which concerned the parent company; (v) liquidity risks, in particular for short term liquidity, and in relation to the sustainability of deposit collection.

In relation to the subsidiary MP Banque:

- on capital requirements, in relation to Total Capital, to maintain, on an individual basis: i) a level of TSCR equal to 10.25 per cent., of which 8 per cent. as minimum Own Funds requirement and 2.5 per cent. as Pillar 2 capital requirement fully comprised of CET1 and ii) an OCR including, in addition to the TSCR, the Combined Capital Requirement pursuant to article 128 of CRD IV.

The SREP Decision introduced the capital guidance (so called "Pillar 2 capital guidance") equal to 1 per cent., as requested to be fully satisfied with Common Equity Tier 1, in addition to the sole minimum OCR regulatory requirement in terms of CET1 and not in addition to the Tier 1 and Total Capital OCR regulatory requirements (for which accordingly the requirements remain unchanged compared to OCR ones). It should be noted that failure to comply with such capital guidance would not equal to a failure to comply with capital requirements.

Following the conclusion of the SREP process on the subsidiary MP Banque, the ECB highlighted some weakness and focus profiles mainly relating to: (i) a certain weakness of the business model caused by the increased cost of risk in the matter of credit and a less than optimal cost income ratio; (ii) internal governance and risk management linked to deficiencies in the credit deliberation process and information flows towards the supervisory board; (iii) capital risks, associated with and consequent to a) credit risks associated with the quality performance of the impaired loans portfolio, b) risks associated with the measurement and monitoring of the *banking book* interest rate, c) operational risks associated with the number of loss events occurred throughout 2016 and still in progress as well as with the consequent higher exposure to reputational risks also due to the events which concerned the Bank; (iv) capital adequacy after the loss posted in the financial statement as at

31 December 2016 mainly referred to further and significant credit adjustments; (v) liquidity risk in relation to short term liquidity and sustainability of deposit collection.

Participation in ECB's 2018 stress test

By way of a letter sent on 27 June 2017, the ECB informed the Bank that in the course of the first six months of 2018, the Bank will be subject to the SREP stress test, the findings of which will be factored in the overall assessment of the 2018 SREP. The SREP stress test, although containing some simplifications compared to the stress test conducted in 2016 according to EBA's EU-wide modalities, replicates in substance its content and purpose. Accordingly, the outcomes of the 2018 SREP stress test (as for the 2016 stress test) will be both factored in the preparation of the 2018 SREP Decision.

Anti-money laundering Bankit Inspection

During the month of June 2017, the anti-money laundering service has been subject to an on-site inspection from the Bank of Italy having as subject matter "Monte dei Paschi di Siena Group. Procedures in the context of identification and adequate enhanced review on politically exposed persons".

During the inspection the Bank of Italy has carried out an analysis of the organizational structures, the internal rules and the internal processes, with particular reference to the process of evaluation of the politically exposed persons and to the continuous monitoring, in addition to specific considerations on a sample of clients independently identified.

The inspection started on 5 June 2017 and ended on 6 July 2017. On 5 October 2017, the national supervisory authority has communicated the result of the inspection to the board of directors of the Bank, describing the goals of the on-site inspections that are carried out at system level, which are used as inspiration in order to suggest the best practices observed in the industry, confirming that it is not expected to be the commencement of any sanctioning procedure.

The supervisory authority notified the board of the result of the above mentioned inspection, underlying certain area of improvement that concern, in particular: the identification of the politically exposed persons; the risk profiling; the adequate verification; and the internal controls. The letter of response from the Bank with the relative mitigation actions is in the process of being predisposed. On 27 October 2017, the board meeting approved the contents of the reply letter for the Bank of Italy which will be sent by the terms thereof.

Restructuring Plan 2017-2021

On 26 June 2017, BMPS' board of directors approved the new economic, capital and financial targets for the Group, referred to the period 2017-2021 (the "**Restructuring Plan**") and designed in the context of the procedure relating to the Precautionary Recapitalization requested by BMPS on 23 December 2016 and contemplated by article 18 of Legislative Decree 16 November 2015, no. 180 and article 18, paragraph 4, letter d), of regulation (EU) no. 806/2014 of the European Parliament and the Council of 15 July 2014.

The Restructuring Plan was notified to the European Commission which, on 4 July, issued a positive decision on the compatibility of the intervention with the EU legislative framework on State aid, applicable to the recapitalization measures of banks in the context of the financial crisis.

The Restructuring Plan is an additional element characterising BMPS' recovery process, aimed at lowering its risk profile, enhancing the capital and liquidity position and restoring medium-long term profitability.

The Restructuring Plan 2017-2021 contains a set of forecasts and estimates based on the realisation of future events and actions to be undertaken, by directors and the management, inclusive of hypothetical assumptions subject to the risks and uncertainties which characterise, *inter alia*, the current macroeconomic scenario and the evolution of the legislative framework, relating to future events and actions which will not necessarily occur, on which directors and the management have no or only partial control, relating to the performance of the main capital and economic figures or of other factors affecting the evolution thereof (the so called hypothetic assumptions).

Due to the uncertainty associated with the realization of any future event, both in relation to the occurrence of the event and to the size and timing of its occurrence, deviation from final and preliminary values may be significant, even if the events envisaged in the hypothetic assumptions would occur.

The Restructuring Plan is consistent with the commitments given to the European Commission's Directorate General Competition (the "**DG Comp**"), provided for by the EU regime, and concerning various plan aspects, among which: (i) the full realization of burden sharing measures under article 22(2) of Decree 237 (the "**Burden Sharing**"); (ii) cost reduction measures; (iii) restrictions in the matter of advertising and business policy; (iv) assignment of assets, (in particular, Banca Monte dei Paschi Belgio S.A. and Monte Paschi Banque S.A.); (v) risk containment measures; (vi) prohibition to carry out acquisitions; (vii) restrictions on payments of coupons under outstanding instruments and to execute liability management transactions; (viii) prohibition to pay dividends; (ix) restrictions on remuneration of employees.

Compliance with the commitments is assured through a monitoring trustee selected by the Bank, with the approval of the DG Comp. In particular, the first monitoring will be carried out during the last quarter of 2017 with reference to the data available as at 30 September 2017. The Issuer proposed – with favourable opinion of the DG Comp – the appointment of Degroof Petercam Finance as monitoring trustee (the latter already acted as monitoring trustee for the commitments of the Restructuring Plan 2013-2017). As at the date of this Base Prospectus, the trustee has not yet started the monitoring over the compliance with the data as at 30 September 2017.

The Bank furthermore disclosed, contextually with the presentation of the Restructuring Plan, to have granted an exclusive option to Quaestio Capital Management SGR S.p.A., until mid-September 2017, for the acquisition of the servicing platform of BMPS' Impaired loans. Subsequently, on 2 October 2017, the BMPS' board of directors resolved to accept the binding offer of Quaestio and Cerved (see paragraph "*Assignment of the management platform of non-performing loans to Quaestio and Cerved ("Sirio")*" below).

Assignment of the "Merchant Acquiring" Business and the equity interests held in Bassilichi S.p.A. and Consorzio Triveneto S.p.A.

On 30 June 2017, the assignment to CartaSi S.p.A. ("**CartaSi**"), a subsidiary of Istituto Centrale delle Banche Popolari Italiane S.p.A ("**ICBPI**"), a company leader in the management of payment services at national and international level, of BMPS activities referred to the merchant acquiring business (the "**Merchant Acquiring**") was finalised. The transaction, which also provides for a ten-year business partnership, for the development and placement of payment products and services in support of customers, was finalized through the assignment of business unit for a consideration equal to Euro 536 million, subject to the usual price adjustment mechanisms.

Furthermore, on 3 July 2017 the assignment to ICBPI of the 11.74 per cent. equity interest held in Bassilichi S.p.A. – a specialized operator in the context of payments and business oriented services – and of 10.13 per cent. in Consorzio Triveneto S.p.A. was finalised. In relation to the assignment of Bassilichi S.p.A., it shall be specified that the equity interest in the company Fruendo, in which Bassilichi S.p.A holds a 60 per cent. stake, a company active in the back-office services for the banking sector is not included in the assignment transaction, as well as other minor equity interests. In proximity of the closing of the transaction, the assets excluded from the acquisition by ICBPI were contributed to a newly established holding, Ausilia S.r.l., in the capital of which the Issuer holds a 10 per cent. stake, as well as ICBPI, while the remaining 80 per cent. of the share capital is held by banks and other financial intermediaries former shareholders of Bassilichi S.p.A..

The above transactions contribute to the capital enhancement process of the BMPS Group and fall within the commitments given to DG Comp in the context of the Restructuring Plan.

Measures implementing the Precautionary Recapitalization and the Capital Enhancement

On 28 July 2017, the Ministry of Economy and Finance, with the Burden Sharing Decree, ordered the application of the Burden Sharing as well as the Bank's capital increase for an amount equal to Euro 4,472,909,844.60 with consequent issuance of 517,099,404 shares awarded, on 1 August 2017, to the holders of Burden Sharing Notes. In accordance with the provisions of article 23, subsection 3 of

Decree 237, as well as article 2 of the Burden Sharing Decree, the Burden Sharing Notes have been converted into Bank's ordinary shares at the unitary price of Euro 8.65.

On 28 July 2017, the Recapitalization Decree has also been published on the Official Gazette, providing for the Bank's Capital Increase for an amount equal to Euro 3,854,215,456.30, to service the subscription of 593,869,870 shares by the MEF executed on 3 August 2017. Pursuant to the Recapitalization Decree, the shares reserved for the MEF are issued at the unitary price of Euro 6.49.

After the completion of the Burden Sharing and of the Capital Increase reserved for the MEF, BMPS share capital, as per the statement pursuant to article 2444 of the Italian Civil Code filed on 10 August 2017 and registered on 11 August 2017, is equal to Euro 15,692,799,350,97 and is represented by 1,140,290,072 ordinary shares, of which 36,280,748 treasury shares held by BMPS Group companies after the perfection of the aforementioned capital enhancement interventions.

*Voluntary public offering for exchange and settlement (the "**Offer**")*

Decree no. 237 provides that – within 120 days from the publication of the Ministerial Decrees – the Bank or a company of the Group, in the name and on behalf of the MEF, may purchase the new shares that have been subject to the transaction between the Bank or a company of the Group and the shareholders that acquired such status following the application of the Burden Sharing, if certain conditions are cumulatively met:

"*a)* *the transaction is aimed at settling or preventing a dispute concerning the commercialization of the securities involved in the application of the burden sharing measures pursuant to article 22, paragraph 2, limited to those for which, in relation to the offer, there was an obligation to publish a prospectus and excluding those purchased by counterparties qualified pursuant to article 6, paragraph 2-quater, letter d) of Legislative Decree 24 February 1998, no. 58 or by professional clients pursuant to article 6, paragraphs 2-quinquies and 2-sexies of the same Legislative Decree, different from the issuer or companies of its Group, in absence of services supply or investment activities by the issuer or by companies of its Group;*

a-bis) *the securities subject to conversion have been subscribed or purchased before 1 January 2016; in the event of purchase for no consideration, it is considered the moment in which the instrument was purchased by the deceased;*

b) *the shareholders are not counterparties qualified pursuant to article 6, paragraph 2-quater, letter d) of Legislative Decree 24 February 1998, no. 58 or professional clients pursuant to article 6, paragraphs 2-quinquies and 2-sexies of the same Legislative Decree;*

c) *the transaction provides that the issuer purchases from the shareholders in the name and on behalf of the MEF, the shares deriving from the application of the burden sharing measures pursuant to article 22, paragraph 2 and that the shareholders receive from the issuer, as purchase price, unsubordinated notes issued at par by the issuer or by companies of its group, for a nominal value equal to the price paid by the MEF according to letter d); such notes shall have a maturity similar to the residual maturity of the instruments and the loans being converted and a return in line with that of the unsubordinated notes issued by the issuer with similar characteristics as recorded on the secondary market during the period between the date of publication of the decree pursuant to article 18, paragraph 2 and the purchase of the shares according to this paragraph;*

d) *the price for the purchase by the MEF of the shares deriving from the application of the burden sharing measures is transferred to the issuer in relation to the notes assigned by the latter to the shareholders; the price for the purchase of such shares is the lower of the price used to determine the number of shares to be assigned in the context of the conversion pursuant to article 22, paragraph 5, letter d) and the price corresponding to the price paid by the shareholder for the subscription or the purchase of the securities subject to conversion pursuant to article 22, paragraph 2 or, in the event of purchase for no compensation, the purchase price paid by the deceased;*

e) *the transaction provides for the renounce by the shareholder to assert any claim in relation to the commercialization of the converted securities, in application to the burden sharing*

measures, pursuant to article 22, paragraph 2 in relation to the shares purchased by the MEF according to this paragraph.”.

The Offer is available only for the holders of UT2 Notes (as defined below) that have the characteristics described above and, to that end, the Bank predisposed a dedicated information document that CONSOB approved on 24 October 2017 (the “**Information Document**”).

In this respect, on 5 October 2017, the Issuer published a press release pursuant to article 102 of the Consolidated Finance Act in which the characteristics of the Offer were outlined.

In particular, the Offer is brought in connection with all the 237,691,869 ordinary shares of the Bank (ISIN code, IT0005276776) arising out of the conversion, following the application of the Burden Sharing, of the subordinated bond issue *€2,160,558,000 Floating Rate Subordinated Upper Tier II 2008-2018* (ISIN code IT0004352586) (the “**UT2 Shares**” and the “**UT2 Notes**”) outstanding as at 3 October 2017, equivalent to 20.84 per cent. of the share capital of BMPS.

Under article 19(2) of Decree 237, the Offer is addressed to all holders of UT2 Shares, other than those who: (i) acquired the UT2 Notes from eligible counterparties, pursuant to article 6(2-*quater*)(d) of the Consolidated Finance Act, or professional clients, pursuant to article 6(2-*quinquies*) and (2-*sexies*) Consolidated Finance Act, other than the Issuer or any company of the Group, in the absence of a supply of investment services or investment business by the Issuer or any company of the Group; (ii) acquired or subscribed the UT2 Notes after 31 December 2015 (where the acquisition has taken place without valuable consideration, this refers to the time at which the UT2 Notes were acquired by the predecessor in title); (iii) qualify and/or have qualified since the date of acquisition of the UT2 Notes as eligible counterparties pursuant to article 6(2-*quater*)(d) of the Consolidated Finance Act, or professional clients pursuant to article 2-*quinquies*) and (2-*sexies*) of the Consolidated Finance Act (the “**Offer Recipients**” or the “**Recipients**”).

The Recipients who tender all or some of their UT2 Shares into the Offer (the “**Tenderers**”) will receive, as consideration and upon the terms and conditions set out below, senior debt securities issued by the Bank and due 15 May 2018, up to a maximum aggregate nominal amount of euro 1,536,000,000 (the “**Senior Debt Securities**” and the “**Maximum Aggregate Nominal Amount**”, respectively).

Where based on the Tenderers received in the course of the tender period (as defined below), the aggregate nominal amount of the Senior Debt Securities to be offered in exchange as consideration under the Offer exceeds the Maximum Aggregate Nominal Amount of euro 1,536,000,000, the UT2 Shares tendered into the Offer shall be allocated on a *pro rata* basis, under which the Bank will – for and on behalf of the MEF – acquire from all Tenderers the same proportion of UT2 Shares that they tendered into the Offer (the “**Pro Rata Allocation**”).

In the event that all the Recipients tender shares into the Offer and there is consequently a Pro Rata Allocation, when the maximum purchase consideration (equal to Euro 8.65) is applied, then the minimum number of UT2 Shares that the Bank acquires for and on behalf of the MEF from all the Tenderers shall be approximately 25 per cent. of the UT2 Shares tendered into the Offer. This percentage might be lower, as the estimate does not take into account holders of UT2 Shares who are not eligible to participate in the Offer pursuant to Decree 237.

In relation to the Pro Rata Allocation, the purchase of the UT2 Shares by the MEF under the Offer has been considered “State aid” by the European Commission. Therefore, the Bank (in its capacity as offeror) and the MEF are unable to increase the Maximum Aggregate Nominal Amount of the Senior Debt Securities.

The consideration of the Offer will be calculated in accordance with the criteria set out under Decree 237 for each Recipient, referring to the consideration paid by each Recipient to subscribe and/or acquire the UT2 Notes. For the purposes of calculating the purchase consideration of the UT2 Notes the Bank will have regard to the weighted average consideration at which those instruments are carried in the securities account of each Tenderer as at 31 December 2015, net of commissions and expenses.

On 30 October 2017 the MEF – for the purpose of purchasing the UT2 Shares – enacted the relevant ministerial decree.

The Offer has been carried out during the period from 31 October to 20 November 2017.

During the tender period (31 October 2017 – 20 November 2017) no. 198,521,533 UT2 Shares, equal to 83.520540 per cent. of the UT2 Shares to which the Offer relates (equal to a total of no. 237,691,869), have been validly tendered into the Offer.

As at the date of the Base Prospectus, on the basis of the Offer's final results, the MEF has purchased a number of UT2 Shares so as to hold a share capital of the Bank equal to 68.247 per cent..

Assignment of the management platform of non-performing loans to Quaestio and Cerved ("Sirio")

On 2 August 2017, the Bank's board of directors resolved to accept the binding proposal of Quaestio Holding SA ("**Quaestio**") and Cerved to purchase BMPS' impaired loans recovery platform and to enter into a multi-annual servicing agreement for the outsourced management of future non-performing flows of all Italian banks of the BMPS Group. The transaction provides for the establishment of a company ("**JV**") which will be 100 per cent. controlled by Quaestio and Cerved. JV, by virtue of enhanced governance rights in favour of Cerved, will be included in the consolidation perimeter thereof. Quaestio and Cerved, on behalf of the to-be-incorporated JV, entered into a binding agreement with BMPS for the purchase of BMPS' servicing platform, which will manage 80 per cent. of non-performing loans to be originated in the next 10 years. The servicing agreement does not include loans classified as non-performing as at 31 December 2016 and subject matter of the assignment plan of approximately Euro 28.6 billion.

The sale purchase agreement – which is expected to be entered into between the Issuer and JV at the end of the first quarter 2018 – is subject to the following conditions precedent: (a) the release of the authorisations requested by the competent supervisory authorities for the purpose of the performance of the sale purchase agreement and the servicing agreement; (b) the release – in favour of the Newco – of the authorisation pursuant to article 115 of the Consolidated Text of Public Safety Laws; (c) the completion of BMPS' capital increase envisaged in the Restructuring Plan on the terms and conditions set out therein; and (d) the completion of the securitisation of non-performing loans of the BMPS Group with subscription of mezzanine securities by the funds managed by Quaestio Capital Management SGR S.p.A..

Impacts of the Burden Sharing on FRESH 2008

The Burden Sharing Decree provides that – pursuant to article 22, paragraph 4 of the Decree 237 – contractual clauses or other entered into by the Issuer and concerning treasury shares or equity instruments and relating to the capital rights attached thereto which impede or limit eligibility within the Tier 1 Capital, become ineffective. Such last provision entails the ineffectiveness of some agreements and/or clauses entered into under the FRESH 2008 structure (for more information in relation to the agreements made in the context of the FRESH 2008, reference is made to the preceding paragraph "*FRESH 2008*").

On 5 October 2017, the Bank's board of directors resolved, amongst the others, to:

a. apply Decree 237 also to the FRESH 2008 transaction, revoking the relevant resolution adopted on 2 August 2017, which provided – on a theoretical basis and however subject to acquisition of the relevant authorizations from any competent authorities – for the possibility to execute a settlement agreement with the holders of FRESH 2008 Securities in a form whose preliminary outline had been made available by them;

b. inform DG Comp, the ECB and the Bank of Italy about the adopted resolution;

c. send a letter informing JP Morgan about the implementation of Decree 237 and the termination of both the usufruct agreement and the company swap agreement; and

d. start discussions with the supervisory authorities on the relevant and consequent regulatory aspects. Although no specific authorization requirements are envisaged, the Bank will send

an instance to the ECB for the authorisation to reclassify the above amount from AT1 to CET1.

As at 30 September 2017, the prudential treatment of FRESH 2008 has not been changed. On 20 October 2017, furthermore, the Bank sent two letters: i) one to JP Morgan in relation to the application of Decree 237, wherein the Issuer specified to deem terminated both the usufruct agreement and the company swap agreement; and ii) by the other letter the Bank communicates that, as at 30 June 2017 – as also shown in the interim financial report as at 30 June 2017 – a capital deficiency event, as provided for in the 2008 FRESH securities regulation occurred (i.e. a reduction of the capital ratios below the minimum regulatory levels) since the Group's capital ratios were, on that date, lower than the coefficients provided for in article 92 of the CRR. Upon the application to FRESH 2008 of the Burden Sharing, discussions with the supervisory authority have been started with respect to the regulatory issues relating thereto.

Furthermore, the Bank has been informed by certain holders of FRESH 2008 notes of the filing of a judicial document before the Court of Luxembourg as outlined in press releases dated 17 November 2017 relating to a lawsuit filed against various counterparties (including the Bank) claiming damages of Euro 1 billion.

As at the date of this Base Prospectus, the Bank received the official notification of such action which does not quantify any alleged damage and requests the Court to state that Decree 237 does not apply and that a conversion event of the instruments did not occur with respect to a capital deficiency event. With the assistance of its lawyers, the Bank is actually evaluating the line of defense which seems the more appropriate considering its position on the matter.

Despite the Bank adopting its position following the discussions with the supervisory authorities on the implementation of Decree 237 and carrying out its own independent legal inspections together with its advisers, it cannot be excluded that the potential acceptance of the claim may entitle the bondholders to receive – subject to the occurrence of the conditions provided for by the conditions of the security – payments of interest under the FRESH 2008 notes, in addition to further damages actionable by the bondholders within the context of such lawsuit.

Renewal of the partnership with Compass

On 19 September 2017, BMPS and Compass S.p.A. agreed to renew the multi-annual partnership for the distribution of Compass S.p.A. loans through the 1,800-plus branches of the BMPS Group, the expiration of which was scheduled for 31 December 2017. The new partnership agreement increases the commercial offer, furthermore providing, starting from the new year, the extension to the whole national territory of the financing through disposal of the one-fifth of the salary, with the assistance of Futuro S.p.A., an entity controlled by Compass S.p.A. and active in providing such type of funding.

Readmission of the BMPS share to trading

On 24 October 2017, CONSOB, by resolution no. 20167, arranged for the revocation of the resolution no. 19840 of 23 December 2016 related to the trading's temporary suspension upon Italian regulated markets, multilateral trading facilities and systematic internalisation systems of any title issued or warranted by the Bank and of any securities having as underlying asset titles issued by the Bank. On 25 October 2017, the BMPS share has been readmitted to trading on the "*Mercato Telematico Azionario*".

Extraordinary and ordinary shareholders' meeting summon

During the meeting held on 7 November 2017, the board of directors resolved to call the ordinary and extraordinary shareholders' meeting on 18 December 2017, for the purposes of resolving upon:

- during the extraordinary session:
  - (i) the reduction of capital for losses, pursuant to art. 2446 of the Civil Code and subsequent resolutions; and
  - (ii) amendments to articles 6, 10, 13, 14, 15, 16, 17, 18, 19, 20, 21, 23, 24, 26, 27, 28 and 33 of the by-laws and subsequent resolutions; and

- during the ordinary session:
  - (i) the determination of the number of members of the board of directors for the financial years 2017,2018 and 2019;
  - (ii) the determination of the number of deputy chairmen of the board of directors for the financial years 2017,2018 and 2019;
  - (iii) the appointment of members of the board of directors for the financial years 2017, 2018 and 2019;
  - (iv) the selection, among the members of the board of directors, of the chairman as well as the deputy chairmen in the number decided by the shareholders' meeting;
  - (v) the determination of the fees to be paid to members of the board of directors; and
  - (vi) the appointment of the chairman and other members of the board of statutory auditors for the financial years 2017, 2018 and 2019, and the determination of their related fees.

In relation to point (i) of the extraordinary session, it has to be noted that, taking into account the loss for the first nine months equal to Euro 2,506 million, the losses carried forward upon approval of the consolidate financial statements in 2016 for around Euro 2,324 million, as well as the other adjustments implemented on the net capital by applying the accounting regulation (mainly linked to the application of the IFRIC 19 to the subordinated notes' conversion and to the early application of IFRS 9 only to the processing of financial liabilities recorded under the fair value option) for around Euro 534 million, on 30 September the overall losses were around Euro 5,364 million. As at this date, the Bank does not have available reserves for covering such losses.

Resignation of the members of the board of directors and board of auditors

Upon completion of the Precautionary Recapitalisation process, that – together with the application of the "sharing commitments" principle – has given a significant discontinuity in the ownership profiles of the Bank with the acquisition by the Ministry of Economy and Finance of the control in the Bank's capital share together with the entry of new shareholders, the members of the board of directors and of the board of auditors resolved, on 7 November 2017, the resignations from their respective offices, starting from the publication of such board resolution in the companies register.

Ratings

On 12 July 2017, Moody's has confirmed BMPS' deposit and senior debt ratings as "B3", with negative outlook, and the short-term rating as "NP" (*Not Prime*). At the same time, the rating agency upgraded the bank's "ca" standalone baseline credit assessment (BCA) to 'caa1' following the completion of the Restructuring Plan.

On 11 August 2017, Fitch upgraded BMPS' long-term Issuer Default Rating ("**IDR**") to "B" from "B-" with stable outlook from '*Rating Watch Evolving*', and confirmed the short-term rating as "B", removing the '*Rating Watch Negative*' outlook. At the same time BMPS' standalone creditworthiness expressed in the viability ratings ("VR") was upgraded to "b".

On 23 August 2017, DBRS upgraded its ratings on BMPS, in particular the senior long-term debt and deposit rating to "B" (high) from "B" (low) and the short-term debt and deposit rating to R-4 from R-5, changing the outlook from '*Under Review Developing*' to stable.

Ratings Agencies	Long term rating	Outlook	Short term rating	Outlook	Last updated
Moody's	B3	Negative	NP[12]	-	12 July 2017

[12] Pursuant to the rating scale of Moody's Investor Service, "NP" rating refers to issuers rated "Not Prime" do not fall within any of the "Prime" rating categories.

Fitch	B	Stable	B[13]	-	11 August 2017
DBRS	B (High)	Stable	R-4[14]	Stable	23 August 2017

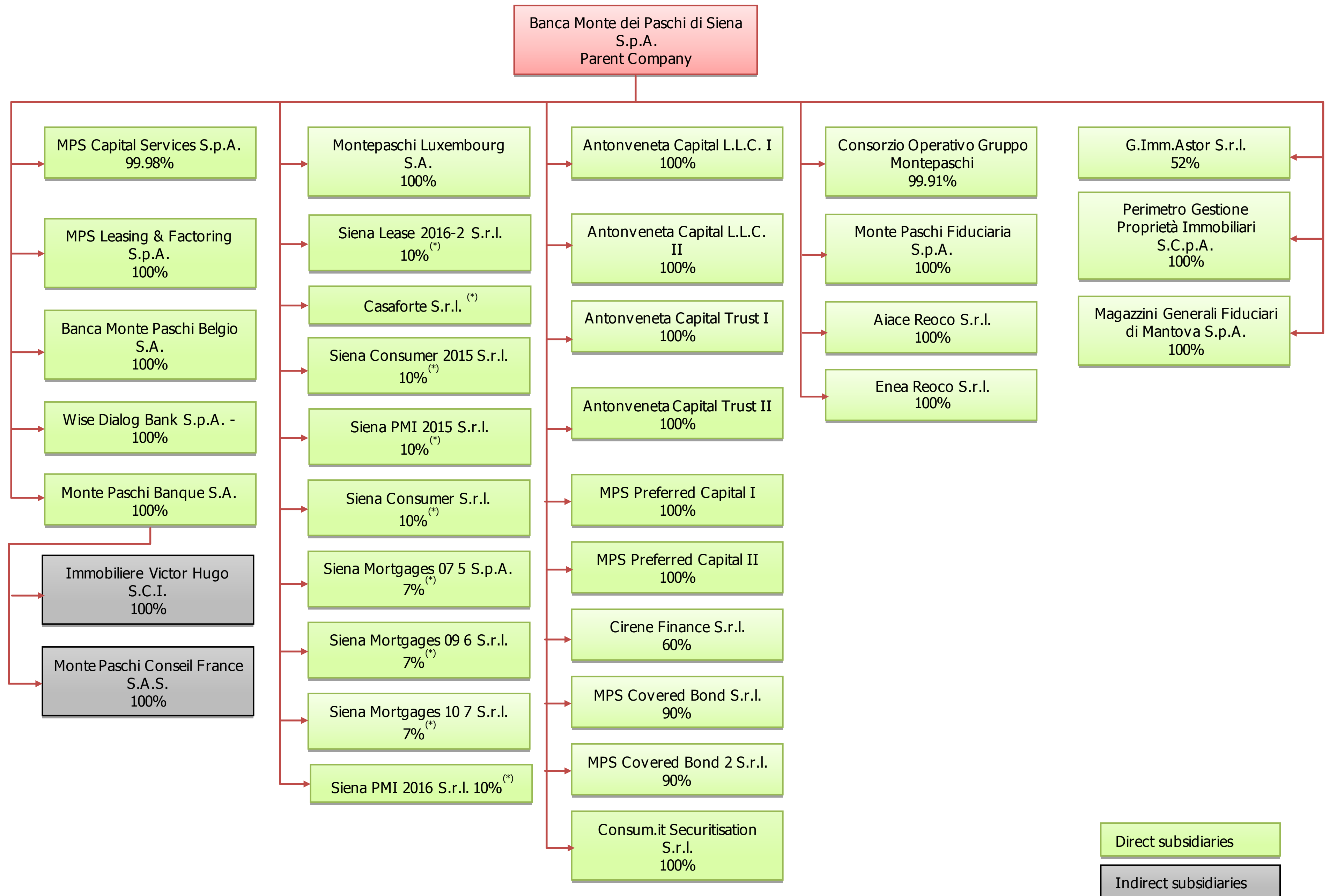
4. Principal companies of the BMPS Group

BMPS, as the parent company of the BMPS Group, performs the functions of policy, governance and control of the controlled financial companies and subsidiaries in addition to its banking activities.

BMPS, as the bank that exercises the management and coordination activities of the BMPS Group, pursuant to the fourth paragraph of article 61 of the Legislative Decree 1 September 1993, n. 385, issues, in the performance of the activities of management and coordination, instructions to the companies of the Group, including execution of the instructions given by the relevant supervisory bodies and in the interest of the stability of the Group.

The list below sets out the main companies of the Group and their percentage ownership as at the date of this Base Prospectus.

[13] Pursuant to the rating scale of Fitch Ratings, "B" rating refers to minimal capacity for timely payment of financial commitments, plus heightened vulnerability to adverse changes in financial and economic conditions in the in short term.
[14] Pursuant to the rating scale of DBRS, "R-4" rating refers to a short term security (or to a short terms securities portfolio) with a highly speculative grade whose short term redemption capacity is uncertain.


Banca Monte dei Paschi di Siena S.p.A.
Parent Company
MPS Capital Services S.p.A.
99.98%
MPS Leasing & Factoring S.p.A.
100%
Banca Monte Paschi Belgio S.A.
100%
Wise Dialog Bank S.p.A. -
100%
Monte Paschi Banque S.A.
100%
Immobiliere Victor Hugo S.C.I.
100%
Monte Paschi Conseil France S.A.S.
100%
Montepaschi Luxembourg S.A.
100%
Siena Lease 2016-2 S.r.l.
10% (*)
Casaforte S.r.l. (*)
Siena Consumer 2015 S.r.l.
10% (*)
Siena PMI 2015 S.r.l.
10% (*)
Siena Consumer S.r.l.
10% (*)
Siena Mortgages 07 5 S.p.A.
7% (*)
Siena Mortgages 09 6 S.r.l.
7% (*)
Siena Mortgages 10 7 S.r.l.
7% (*)
Siena PMI 2016 S.r.l. 10% (*)
Antonveneta Capital L.L.C. I
100%
Antonveneta Capital L.L.C. II
100%
Antonveneta Capital Trust I
100%
Antonveneta Capital Trust II
100%
MPS Preferred Capital I
100%
MPS Preferred Capital II
100%
Cirene Finance S.r.l.
60%
MPS Covered Bond S.r.l.
90%
MPS Covered Bond 2 S.r.l.
90%
Consum.it Securitisation S.r.l.
100%
Consorzio Operativo Gruppo Montepaschi
99.91%
Monte Paschi Fiduciaria S.p.A.
100%
Aiace Reoco S.r.l.
100%
Enea Reoco S.r.l.
100%
G.Imm.Astor S.r.l.
52%
Perimetro Gestione Proprietà Immobiliari S.C.p.A.
100%
Magazzini Generali Fiduciari di Mantova S.p.A.
100%
Direct subsidiaries
Indirect subsidiaries

5. BMPS Group Profile

As at 30 September 2017, the BMPS Group is an Italian banking institution with 24,781 employees, approximately more than 5 million customers, assets of around Euro 146 billion and significant market shares in all the areas of business in which it operates.

The Group's main activity is retail banking which involves the provision of banking services for individuals such as financial and insurance products, financial promotion, wealth management and third entities' securities offers. Other areas of business are: leasing and factoring; consumer lending; corporate finance and investment banking.

The following table shows a breakdown of the Issuer's branches by Region as 30 September 2017:

	Number	Percentage on the total of the branches
North	**754**	**40.65%**
Piemonte	42	2.3%
Valle d'Aosta	4	0.2%
Liguria	25	1.3%
Lombardia	259	13.9%
Trentino Alto Adige	3	0.2%
Veneto	247	13.3%
Friuli Venezia Giulia	50	2.7%
Emilia Romagna	124	6.7%
Center	**696**	**37.4%**
Toscana	383	20.6%
Marche	53	2.8%
Umbria	47	2.5%
Lazio	163	8.8%
Abruzzo	40	2.2%
Molise	10	0.5%
South and Islands	**410**	**22.0%**
Campania	104	5.6%
Basilicata	10	0.5%
Puglia	109	5.9%
Calabria	47	2.5%
Sardegna	14	0.8%
Sicilia	126	6.8%
Total	**1,860**	**100.0%**

Customers are divided by target segments to which an *ad hoc* service model is applied so as to best respond to the specific needs and demands expressed, and are served through an integrated combination of "physical" and "remote" distribution channels.

The Group mainly operates in Italy through, as at 30 September 2017, 1,860 branches, 237 specialised centres and 115 financial advisory branches.

The foreign network includes 39 branches and representative office boards, 4 of which operational branches (London, New York, Hong Kong and Shanghai), 2 banks under foreign law – Banca Monte Paschi Belgio, Monte Paschi Banque S.A. and another 10 representative offices located in various "target areas" (EU, Central-Eastern Europe, North Africa, India and China).

Organisational structure

BMPS carried out a significant organisational restructuring, with the aim of strengthening the sales and distribution functions as well as the integrated and coordinated supervision of governance and business support functions.

The initiatives undertaken by BMPS concern:

- The business functions

- the credit division was strengthened by establishing a specific general division;
- the specialisation of control of the various business segments was increased by establishing a retail and network division (for the retail and private segments, as well as the coordination of the sales and distribution network) and the corporate and investment banking division (for the corporate, key clients, international activities and private equity segments);
- financial advisory activities were added to the organisational area set up to develop the new online bank (online bank development area).

- The governance, control and business support function
  - the general finance and operations division was established, to which the chief financial officer division and chief operating officer division will report;
  - the human resources, organisation and communications division was developed to promote effective interoperability between human resources management, business organisational structures and internal/external communications; and
  - the risk division was reorganised with the creation of more cohesive controls of the activities of validation, monitoring and risk reporting.

Other organisational action was taken with objectives associated with business efficiency, organisational rationalisation and compliance with legislative provisions.

The changes involved:

- The head office units and regional coordination:

  the regional area sales and products office is divided into 3 separate units (retail sales and products, corporate sales and products and private sales and products) to achieve more effective specialist control over the reference markets and greater sales control with customers.

- The treasury, finance and capital management area organisation:

  responsibilities and efforts on risk factors and business drivers (liquidity management, strategic risk governance and capital management) have been reallocated. In particular, an internal reorganisation was arranged, refocusing the risk factors area, with related strengthening of the rate risk and liquidity risk monitoring, simplification and standardisation of operating processes, with a view to greater efficiency and a clearer allocation of responsibilities and tasks between BMPS and MPSCS, preserving the latter's sales efficiency;

- The compliance area:

  The Group's FATCA contact (Foreign Account Tax Compliance Act) - the FATCA Officer - has been appointed to meet obligations relating to the reporting of US customer details to the relevant tax authorities, coordinating the roles established in the Group's companies and foreign branches in compliance with their obligations pursuant to the intergovernmental agreement between Italy and the United States to implement FATCA and similar intergovernmental agreements in relevant Group's jurisdictions.

6. Funding

General

During 2016 the Group successfully continued to employ various sources of funding, both on the retail domestic market and on international markets dedicated to qualified investors.

Retail domestic market

The BMPS Group issues various kinds of securities, including fixed rate bonds or floating rate bonds, zero coupons and light structured bonds with different maturities, placed to retail customers of the BMPS Group throughout its network of branches.

International markets

The BMPS Group has different international programmes dedicated to qualified investors.

On a short-term maturity basis, the BMPS Group has two certificate of deposit programmes issued under the BMPS London Branch "Euro-Certificate of Deposit Global Programme" and "*French Certificats de Dépot*" dedicated to French investors.

On a medium-term basis, the BMPS Group covers the funding requirements by issuing a variety of debt instruments such as fixed or floating rate notes or zero coupon notes both publicly and privately placed under its dedicated programmes; senior or subordinated unsecured notes issued under the EMTN "Euro50 billion Debt Issuance Programme" and covered bonds issued under the "Euro10 billion Covered Bond Programme".

With regard to the issuances under the EMTN Programme, the Group issued, on 1 April 2014, Euro 1 billion.

With regard to the issuances under the Covered Bond Programme, while the Group issued on 20 October 2015, Euro 750 million worth of 6 year fixed rate covered bonds, and on 19 November 2015, Euro 1 billion worth of 10 year fixed rate covered bonds, for a total aggregate amount of Euro 1,75 billion, in 2016 it carried out four additional transactions of "autocovered" bond for a total notional amount of Euro 2 billion. As at 30 September 2017, 13 issues were outstanding for a total aggregate notional amount of Euro 8,4 billion.

7. Information Technology

In recent years the BMPS Group has implemented a reorganisation of its information technology (IT) operations directed at promoting more uniformity of IT systems and structures within the Group. As part of this restructuring, a consortium was created to manage the Group's IT systems and serve the need of the various functions within the BMPS Group.

The consortium is currently engaged in several development projects principally for the areas of risk management, trading back office procedures, credit rating and scoring, customer service centres, new products catalogues, payment and settlement procedures and software enhancements for the international branches.

8. Competition

The BMPS Group faces significant competition from a large number of banks throughout Italy and abroad.

A period of consolidation has created larger, more effective and competitive banking groups. Competition in both deposit-taking and lending activities has intensified, contributing to the narrowing of spreads between deposits and loan rates.

In attracting retail deposits and financing retail customers, the Bank primarily competes at the local level with medium-sized local banks, and to a lesser extent, with super-regional banks. The Bank's major competitors in other areas of the Italian banking market are Italian national and super-regional banks, such as UniCredit group, Intesa SanPaolo, Banco Popolare, UBI Banca and BPER group.

Foreign banking institutions operating in Italy, that may also have greater financial and other resources than the BMPS Group, are growing in number and are regarded as increasingly more effective competitors, mainly in corporate banking and sophisticated services related to asset management, securities dealing, brokerage activities and mortgage lending.

9. Legal Proceedings

Judicial and arbitration proceedings

Save as disclosed in this section, in the course of the twelve months preceding the date of this Base Prospectus there has been no governmental, legal or arbitration proceedings (including pending or threatened proceedings known to BMPS) which may have, or which had in the recent past, significant impacts on the Issuer's financial condition or profitability.

As at the date of this Base Prospectus there are various legal proceedings pending against the Bank, including civil, criminal and administrative actions.

Some of these proceedings derive from the extraordinary and exceptional context related to criminal investigations ordered by courts and to legal affairs involving the Issuer in 2012 and 2013 and which

mainly relate to the financial transactions carried out to fund the acquisition of Banca Antonveneta, various financial transactions carried out by the Bank, among which the transactions relating to the restructuring of the "Alexandria" notes and the "Santorini" transaction, previous capital increases carried out by the Bank in 2008 and 2011 and the FRESH 2008 transaction; these events also led to disciplinary procedures being filed by supervisory authorities against the management in office at the time of such events (which, should sanctions be imposed, would imply that the Bank will be held jointly liable with no certainty that the latter will be able to recover any amounts paid as a result of such obligation after the bringing of recourse actions) and certain legal actions brought against the Bank by consumer associations and individual investors who have subscribed for financial instruments in the context of the share issuances carried out by the Bank. This context also includes corporate liability lawsuits brought by the Bank against the Chairman of the board of directors and the General Manager in office at the time of events and suits for damages against Nomura and Deutsche Bank in connection with the restructuring of the "Alexandria" notes and the "Santorini" transaction, respectively.

In addition to this litigation, there are also (i) disputes deriving from the Bank's ordinary course of business, and concerning, *inter alia*, clawback actions, compound interest, placement of bonds issued by Governments and companies then defaulted, placement of other financial instruments and products, (ii) labour disputes, (iii) tax disputes and (iv) disputes arising from the Burden Sharing. In relation to the determination of the overall *petitum* of disputes legal proceedings pending against the Bank, as at the date of this Base Prospectus no claims for mis-selling have been filed by the holders of UT2 Notes in the context of the Burden Sharing.

The overall *petitum* of civil disputes to which the Group is a party as at 30 September 2017 is equal to Euro 4,419.8 million – of which around Euro 272.3 million for civil disputes relating to proceedings brought by shareholders in the context of the 2008, 2011, 2014 and 2015 capital increases (see Section "*Civil actions instituted by shareholders in the context of the 2008, 2011, 2014 and 2015 capital increases*" below) and to which around Euro 4,147.5 million for disputes deriving from the conduct of ordinary business shall be added (see Section "*Disputes deriving from ordinary business*" below).

In addition to this *petitum*, 735 complaints have been filed relating to capital increase transactions, the allegedly inaccurate disclosure contained in prospectuses and/or financial statements and/or price sensitive information disseminated by BMPS since 2008, for total amounts claimed equal to around Euro 651 million, where quantified, aimed at obtaining the restitution of invested amounts and/or compensation for monetary and non-monetary damages consequent to the alleged losses incurred. Of such requests around 10 per cent. turned into civil actions (for the great majority with intervention in the proceedings instituted by one single shareholder).

Such requests – individually or collectively brought through two professionals and ADUSBEF – although heterogeneous are mainly reasoned with generic references to the alleged infringement, by BMPS, of the sector legislation in the matter of disclosure and, accordingly, rebutted by the Bank since generic, ungrounded, non-supported by suitable documental evidences and in some instances, time barred. The residual *petitum* claimed by complainants who did not institute any judicial proceedings is equal to around Euro 589 million.

The overall *petitum* for tax disputes is equal to around Euro 130 million for levies and sanctions, while the *petitum* relating to labour disputes is equal to around Euro 119 million (inclusive also of 6 legal proceedings initiated by the current 37 employees of Fruendo S.r.l. and described in the following paragraph "*Labour disputes*"). In light of the estimates made on the risks of adverse outcome in the aforementioned proceedings, as at 30 September 2017, "legal disputes" included under item "provision for risks and charges", amount to Euro 569.4 million, comprised of claw-backs for Euro 74.7 million and civil disputes for Euro 494.7 million of which 478 million related to the litigation deriving from the carrying out of the ordinary business. Furthermore, as at the same date, the "provision for risks and charges" includes tax disputes for Euro 18.5 million and labour disputes for Euro 49.3 million (inclusive also of 6 legal proceedings initiated by the current 37 employees of Fruendo S.r.l. and described in the following paragraph "*Labour disputes*").

Allocations to the "provision for risks and charges" have been made for amounts representing the best possible estimate relating to each dispute, quantified with sufficient reasonableness and, in any case, in accordance with the criteria laid down by the Issuer's policies.

Among the components of the overall "provision for risks and charges" are included, in addition to the allocations provided for "legal disputes", also allocations versus expected losses on estimated disbursements for client complaints.

The estimate of liabilities is based on the information available from time to time and implies in any case, due to several uncertainty factors characterising the different judicial proceedings, multiple and significant evaluation elements. In particular, it is sometimes not possible to produce a reliable estimate as an example and without limitation in case proceedings have not been instituted, in case of possible cross-claims or in the presence of uncertainties in law or in fact such as to make any estimate unreliable.

Accordingly, although the Bank believes that the overall "provision for risks and charges" posted in the Financial Statement should be considered adequate in respect of the liabilities potentially consequent to negative effects, if any, of the aforementioned disputes, it may occur that the provision, if any, may be insufficient to fully cover the charges, expenses, sanctions and compensation and restitution requests associated with the pending proceedings or that the Group may in the future be called to satisfy compensation and restitution costs and obligations not covered by provisions, with possible negative effects on the business and the economic, capital and/or financial condition of the Bank and/or the Group.

Disputes related to criminal investigations and legal affairs in 2012 and 2013

Following the aforementioned criminal investigations involving the Bank in 2012 and 2013, several criminal, sanctioning and civil proceedings were instituted by judges, supervisory authorities, the Bank itself, consumer associations and investors.

The Bank's position in respect of such proceedings is aligned to the principles of business and managerial discontinuity which inspired the renovation actions undertaken by the management which took over from the previous management in office at the time of events, aimed at identifying the best initiatives for the protection of the Bank, its assets and image thereof, even through direct legal actions against the former top executives.

Criminal investigations and proceedings

(A) Acquisition of Banca Antonveneta and FRESH 2008

On 30 July 2013, the public prosecutor's office at the Court of Siena issued a "notice of completion of preliminary investigations", pursuant to article 415-*bis* of the Italian Criminal Procedure Code and article 59 of Legislative Decree 231/2001, against certain directors, executives and members of the Bank's Board of Statutory Auditors in office at the time of events, and against the Bank itself. The allegations against the Bank as legal entity in the investigation phase (always in the context of the transactions aimed at finding the financial resources for the acquisition of Banca Antonveneta) included six administrative offences from crime (under Legislative Decree 231/2001) connected to alleged crimes committed by the management in office at the time of events.

The main offences charged against the Bank's management in office between 2008 and 2011 include the following: market manipulation (under article 185 of the Consolidated Finance Act), obstruction of the exercise of public supervisory functions (under article 2638 of the Italian Civil Code), false statements set out in prospectus (under article 173-*bis* of the Consolidated Finance Act), false corporate communications (under article 2622 of the Italian Civil Code), insider trading (under article 184, subsection 1., lett. b of the Consolidated Finance Act). In particular, charges mainly derive from: (i) dissemination of false information, suitable to significantly alter the price of the Issuer's shares in respect of the FRESH 2008 transaction; (ii) failed notification of material information to competent supervisory authorities, such as the issuance by the Bank of an indemnity side letter in favour of J.P. Morgan Securities Ltd (now J.P. Morgan Securities plc) in 2008 and in favour of The Bank of New York (Luxembourg) S.A. in March 2009 and the signing of some *addenda* to the usufruct contract entered into with J.P. Morgan Securities Ltd (now J.P. Morgan Securities plc); (iii) failed disclosure on the payment of the usufruct fee to J.P. Morgan Securities Ltd (now J.P. Morgan Securities plc) in relation to the shares purchased thereby; (iv) communication, outside the normal exercise of the office, of the execution of the purchase agreement of Banca Antonveneta by the Bank; (v) inclusion of false information and the concealing of information in the prospectuses published on the occasion of the capital increases realised by the Bank in 2008 and 2011 with specific reference to the recognition of the various components of the "FRESH 2008" transaction and the placement of

FRESH 2008, indirectly subscribed for by the Foundation through total return swap agreements, and (v) recognition, in the financial statement relating to the accounting period closed on 31 December 2008 and in subsequent communications addressed to shareholders, of material facts to representative of the truth, sufficient to mislead the addressees thereof.

In these proceedings, the Bank's defensive strategy was mainly based on the fact that the conduct of the management in office at the time of events had not been undertaken in the Bank's interest (nor in its favour) being so absent the pre-requirement for the liability pursuant to Legislative Decree 231/2001.

On 2 October 2013, public prosecutors filed an indictment, which instituted the criminal proceedings against certain natural persons that held executive positions or belonged to the Bank's Board of Statutory Auditors at the time of events, but not against BMPS. Against the legal person BMPS, on the contrary, on 10 April 2014 the public prosecutor's office at the Court of Siena ordered the dismissal of the allegation initially charged against it, in accordance with Bank's defensive strategy.

During these proceedings, the public prosecutor's office issued a request to indict the legal person J.P. Morgan Securities Ltd (now J.P. Morgan Securities plc), for an administrative offence under Legislative Decree 231/2001 deriving from an alleged violation of article 2638 of the Italian Civil Code, namely obstruction of the exercise of public supervisory authority functions.

The first preliminary hearing against the former senior management, members of BMPS' Board of Statutory Auditors and J.P. Morgan Securities Ltd (now J.P. Morgan Securities plc) was held on 6 March 2014 and in such moment the Bank requested to join the proceedings as civil plaintiff, which has been subsequently upheld by the Preliminary Hearing Judge (PHJ) for all charges and all defendants for the purpose of the compensation of all non-monetary damages.

Further to objections made by certain defendants, at the hearing of 6 May 2014, the PHJ declared that the Court of Siena lacked territorial jurisdiction and the case documents were subsequently transferred to the public prosecutor at the Courts of Milan. The proceeding is still pending. In March 2016, the proceeding was combined with the criminal proceedings pending before the Courts of Milan relating to the "Santorini", "FRESH 2008" and "Chianti Classico" transactions; with respect to these proceedings J.P. Morgan Securities Ltd (now J.P. Morgan Securities plc) does not result as having been sent to trial.

For more information in this respect reference is made to Section (C) *""FRESH 2008", "Alexandria", "Santorini", "Chianti Classico" Transactions – Criminal proceedings before the Courts of Milan"* below.

In the context of such proceedings, in April 2015, as regards the FRESH 2008 transaction, the Courts of Milan transmitted to the Courts of Rome the case documents relating to the offence of obstruction of the exercise of suspensory functions (article 2638 of the Italian Civil Code) chargeable to the members of the Issuer's Board of Statutory Auditors in office at the time of events (Tommaso Di Tanno, Leonardo Pizzichi and Pietro Fabretti); as regards these criminal proceedings the Issuer was notified that the Preliminary Investigation Judge at the Courts of Rome, on 14 July 2016, upheld the dismissal request for the positions above.

(B) *Restructuring of* "Alexandria" notes

In 2013 the public prosecutor's office at the Court of Siena instituted a criminal proceeding relating to the hypothesis of obstacle to the supervisory activity concerning the transactions related to the restructuring of the "Alexandria" notes, against top representatives of the Bank in office at the time of events. In the context of such proceedings, the first instance proceeding was closed with the conviction (issued on 31 October 2014 by the Courts of Siena) against Mr. Mussari, Mr. Vigni and Mr. Baldassarri. In this proceeding, the Bank's and consumer associations' request to appear as civil plaintiffs was denied.

Again with reference to the transaction related to the restructuring of the "Alexandria" notes, please also note that, following the notification – which took place on 3 April 2015 – of the decision to close the preliminary investigations pursuant to and to the effects of article 415-bis of the Italian Criminal Procedure Code, the public prosecutor's office at the Court of Milan filed, in the context of the proceedings in which they were accused of the various crimes of false corporate communications and market manipulation, the request for indictment against Mr. Mussari, Mr. Vigni and Mr. Baldassarri

and two members of the management of Nomura with respect to the crimes laid down by article 2622, subsections 1, 3 and 4 of the Italian Civil Code and article 185 of the Consolidated Finance Act, committed in association by them, with conduct relevant for the purposes of articles 3 and 4, subsection 1, of Law 146/2006 in the matter of transnational crimes.

The allegations concern the hypothesis of crime resulting from the concealment of losses accrued in the Issuer's financial statement as of 31 December 2009 as a result of the investment in the "Alexandria" notes through the execution of the restructuring transaction thereof and its accounting methods.

In relation to the crimes committed by the aforementioned individuals, the public prosecutor also requested the indictment of the Issuer and Nomura for the administrative offenses set out under articles 25-ter, letter c), and 25-sexies of Legislative Decree no. 231/2001. Due to serving of process formalities, Nomura was excluded as liable party from these proceedings, pursuant to Legislative Decree 231/2001, while against BMPS, the civil claims for damages proposed in respect of the liability of the entity pursuant to Legislative Decree 231/2001 have been denied with order of the PHJ issued at the hearing of 27 November 2015.

On 12 October 2015, the preliminary hearing of the criminal proceedings relating to the "Alexandria" transaction was held, which sees the Bank involved both as civilly liable party and injured party. With reference to this latter aspect, the Bank appeared as injured party against Mr. Mussari, Mr. Vigni and Mr. Baldassarri.

In March 2016, this proceeding was combined with the other legal action pending before the Court of Milan in relation to the "Santorini", "FRESH 2008" and "Chianti Classico" transactions.

For more information in this respect reference is made to Section (C) "*"FRESH 2008", "Alexandria", "Santorini", "Chianti Classico" Transactions – Criminal proceedings before the Courts of Milan*" below.

Finally, as regards the precautionary measures established for the possible compensation of monetary damages, it is worth noting that, in the context of the proceedings instituted before the Courts of Siena, on 16 April 2013, the currency police bureau of the tax police executed, in various Italian cities, a preventive seizure decree adopted with urgency by the Siena public prosecutor on 15 April 2013 against Nomura and some members of the Issuer's management in office at the time of events. In particular, against Nomura, the seizure concerned around Euro 1.8 billion. As also announced by the Siena public prosecutor, the seizure has been ordered for reasons of obstruction and confiscation by equivalent purposes in respect of the aggravated usury and aggravated fraud committed against the Issuer as well as money laundering and criminal association crimes in relation to the transactions related to the restructuring of the "Alexandria" notes. However, not having the Preliminary Investigation Judge (PIJ) at the Courts of Siena upheld the preventive measure, the public prosecutor's office filed an appeal against such decision before the Appeal Court which confirmed the PIJ decision.

After the further appeal brought by the Siena prosecutor's office, the Court of Cassation, second criminal section, cancelled with referral, with limitation to the fraud crime, the order of the Siena Appeal Court which had denied the appeal filed by the prosecutor against the failed upholding of the urgent preventive seizure, ordered by the same prosecutor. After the upholding of the appeal, the referral to the Siena Appeal Court was accordingly ordered for the matter to be re-examined, and it is currently pending.

(C) "FRESH 2008", "Alexandria", "Santorini", "Chianti Classico" Transactions – Criminal proceedings before the Courts of Milan

By decision of 13 January 2016, the public prosecutor's office at the Court of Milan ordered the notification to BMPS and other suspects of the notice of conclusion of preliminary investigations pursuant to and to the effects of article 415-*bis* of the Italian Criminal Procedure Code concerning the investigation threads relating to the "FRESH 2008", "Alexandria", "Santorini" and "Chianti Classico" transactions. According to the press release disclosed on 14 January 2016 by the public prosecutor's office at the Court of Milan, all investigation threads relating to the aforementioned transactions have been completed.

With respect to the "FRESH 2008" transaction (carried out in the context of the fund raising

operations for the acquisition of Banca Antonveneta) three BMPS officers and executives in office at the time of events were charged with several criminal offenses, such as: false corporate communications in relation to the 2008 financial statements (article 2622 Italian Civil Code), market manipulation in connection with the 2008 financial statements and the semi-annual financial statements as at 30 June 2008 (article 185 of the Consolidated Finance Act), obstruction of the exercise of supervisory functions of the Bank of Italy (article 2638 of the Italian Civil Code), false statements set out in prospectus (article 173-bis Consolidated Finance Act) with reference to the prospectuses relating to the two capital increases carried out in 2008 and 2011 and to the prospectuses relating to the offering of bonds and certificates carried out during the period 2008-2012. In relation to the latter, also the effects resulting from the incorporation by reference of certain accounting documents have been deemed relevant due to the incorrect recognition of, *inter alia*, the "FRESH 2008", "Alexandria" and "Santorini" transactions.

With reference to the "Santorini" transaction, two former officers and one BMPS executive, and six managers of Deutsche Bank – whose conduct was relevant for the purposes of articles 3 and 4, subsection 1, of Law 146/2006 on transnational crimes – were charged with the crimes of false corporate communications (article 2622 of the Italian Civil Code) and market manipulation (article 185 of the Consolidated Finance Act) in relation to the impacts deriving from the transaction on the financial statements for 2008, 2009, 2010, 2011 and on the financial positions as at 31 March 2012, 30 June 2012 and 30 September 2012.

With reference to the Alexandria transaction, three BMPS officers and executives in office at the time of events and two managers of Nomura – whose conduct was relevant for the purposes of articles 3 and 4, subsection 1, of Law 146/2006 on transnational crimes – were charged with the crimes of false corporate communications (article 2622 of the Italian Civil Code) and market manipulation (article 185 of the Consolidated Finance Act) in relation to the impacts deriving from the transaction on the financial statements for 2009, 2010, 2011 and on the financial positions as at 31 March 2012, 30 June 2012 and 30 September 2012.

As mentioned above, this proceeding has been combined with the criminal proceeding pending before the Court of Milan and described in Section (B) "*Restructuring of "Alexandria" notes*" above, in the context of which the indictment was already requested with reference to the crimes related to 2009 financial statements. It has also been deemed to charge the same individuals with the crime of obstruction of the exercise of supervisory functions by CONSOB (article 2638 of the Italian Civil Code) with respect to the reporting of certain transactions carried out between BMPS and Nomura and involving government securities. With the same proceeding, the proceeding pending before the Courts of Siena and described under Section (A) "*Acquisition of Banca Antonveneta and FRESH 2008*" above was also combined.

As regards the "Chianti Classico" transaction, two officers of the Issuer in office at the time of events have been charged with the crime of obstruction of the exercise of public supervisory authorities' functions (article 2638 of the Italian Civil Code) due to the omission of some communications in relation to the same transaction to the Bank of Italy and CONSOB.

In relation to the crimes alleged against these individuals, the public prosecutor's office also served the notice of conclusion of preliminary investigations:

- to BMPS for the administrative offenses under articles 25-ter letter. b), 25-ter letter. s) and 25-sexies of Legislative Decree no. 231/2001 following the charging of the crimes of false corporate communications (article 2622 of the Italian Civil Code), obstruction of the exercise of public supervisory authorities' functions (article 2638 of the Italian Civil Code) and market manipulation (article 185 of the Consolidated Finance Act); and
- to Deutsche Bank, Deutsche Bank AG London branch and Nomura for the administrative offenses under articles. 25-ter letter. b), and 25-sexies of Legislative Decree no. 231/2001 following the charging of the crimes of false corporate communications (article 2622 of the Italian Civil Code) and market manipulation (article 185 of the Consolidated Finance Act).

The outcomes of the investigation revealed that, in the financial statements and financial reports of BMPS disclosed to the market between the financial statements as at 31 December 2008 and the quarterly reports at 30 September 2012, false data would have been exposed.

As regards the crimes related to the balance sheets as at 31 March 2012, 30 June 2012 and 30

September 2012, the suspects have been charged, having determined the conditions for approval by the new top executives of BMPS, due to the behaviours previously adopted by top managers.

By order of 13 May 2016, the PHJ authorized the filing and admissibility of the claims for damages of the civil plaintiffs against the entities already involved in the proceedings as defendants pursuant to Legislative Decree 231/2001, having deemed recognisable to the civil plaintiff, in case of criminal proceedings involving the company and its employees, the protection of the compensation right against the entity and resulting in the compensatory requests existing in abstract, not being charged to the entities any joint liability in terms of wilful misconduct or negligence and being relevant an occasional relation between the harmful event and the functions exercised by the accused individuals, in the absence of objections concerning their own personal interests.

On 4 July 2016, with the approval of the public prosecutor's office, BMPS filed a request for plea bargain in the criminal proceedings, in relation to the objections made against the Bank pursuant to Legislative Decree 231/2001.

With the plea bargain, upheld by the Preliminary Hearing Judge on 14 October 2016, the Bank exited the proceedings as accused of the administrative offence subsequent to crimes committed by its own former executives, limiting the consequences to an administrative monetary sanction of EUR 600,000 and a confiscation for EUR 10 million.

On 1 October 2016, the PHJ ordered the indictment of defendants other than the Bank. At the hearing of 15 December 2016 before the second criminal section of the Courts of Milan, subsequent to the request as civilly liable parties of the Banks BMPS, Nomura, Deutsche Bank, around 1,500 civil plaintiffs served on the Bank the civilly liable summon in respect of the crimes charged to the indicted former directors and managers.

During the trial, by order of 6 April 2017, the Courts of Milan ruled on the exclusion request of civil plaintiffs filed by defendants and civilly liable parties, excluding certain civil plaintiffs.

The appearance as civil plaintiff of the Bank against Giuseppe Mussari, Antonio Vigni, Daniele Pirondini and Gian Luca Baldassarri was also denied on the assumption of a Bank's liability for complicity with defendants. To date, civil plaintiffs who appeared against the Bank are around 1,250.

On 12 May 2017 the indictment of officers Alessandro Profumo, Viola Fabrizio and Salvadori Paolo (the first two no longer being in office) has been requested in the context of new criminal proceedings before the Courts of Milan where they are charged with the crimes of false corporate communications (article 2622 of the Italian Civil Code), in respect of the accounting of the "Santorini" and "Alexandria" transactions, as regards the Bank's financial statements, reports and other corporate communications, from 31 December 2012 until 31 December 2014 and as regards the semi-annual report as at 30 June 2015 as well as market manipulation (article 185 of the Consolidated Finance Act) in relation to communications released to the public with regard to the approval of the above mentioned financial statements and reports.

In respect of these proceedings, where the Bank is identified as the offended party, the first hearing was held on 5 July 2017, during which some hundreds of individuals and some category associations asked to appear as civil plaintiffs. The PHJ deferred the case to 29 September 2017, for the decision on the requests, as well as for the combination with the proceedings pending against BMPS, as the accused party pursuant to Legislative Decree no. 231/2001 for the same events today charged to Mr. Profumo, Viola and Salvadori. At the hearing of 29 September 2017, no. 304 of the no. 337 damaged parties that made the relevant request were admitted. The others have been excluded due to procedural deficiencies. At such hearing, the proceeding pending against the Bank as administrative accountable entity was merged in the proceeding pending against the individuals. The court has then permitted the summons of the Bank as civilly liable party, deferring the proceeding to the hearings of 10 November 2017 and 24 November 2017, in order to permit the carrying out of the related notification.

Conversely, it is currently pending, before the public prosecutor's office at the Court of Milan, in the phase of the conclusion of the preliminary investigation, another connected criminal proceeding solely against Mr. Profumo and Mr. Viola for the alleged obstruction of the exercise of supervisory functions (article 2638 Italian Civil Code), in relation to the omission of information in cases considered relevant to resolve the matter of the accounting of the "Santorini" and "Alexandria" transactions. Such proceeding is pending also against BMPS for the connected and subsequent

administrative offence pursuant to Legislative Decree no. 231/2001.

(D) CONSOB verifications on the 2014 Financial Statement and the semi-annual financial report as at 30 June 2015: information pursuant to article 154-*ter*, subsection 7, of the Consolidated Finance Act in relation to the accounting recognition of the "Alexandria" transaction

As regards the "Alexandria" transaction, it is worth noting that with resolution no. 19459 of 11 December 2015, CONSOB, after completing its investigations, found that the 2014 consolidated and individual financial statements and the semi-annual report as at 30 June 2015 were not compliant with the rules governing the drafting thereof and namely the application of IAS 1, IAS 34 and IAS 39 with exclusive reference to the accounting recognition ("at open balances" or "at closed balances") of the "Alexandria" transaction. As a consequence of the above, CONSOB asked the Bank to publicly disclose the following information: (i) a description of the international accounting standards applicable and the findings in this respect; (ii) an illustration of the deficiencies and criticalities found by CONSOB as regards the accounting accuracy of the consolidated and individual financial statement as at 31 December 2014 and the semi-annual financial report as at 30 June 2015; (iii) a suitable disclosure to represent the effects of the application of IAS 8 as regards the errors relating to the recognition, evaluation and presentation of the transaction entered into with Nomura providing an accounting representation of the transaction at closed balances with the recording of a credit derivative in accordance with the definition given by section 9 of IAS 39.

On 16 December 2015, the Issuer then published a press release, which can be seen on the website www.gruppomps.it to which reference is made, and setting out the information requested by the supervisory authority.

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As regards proceedings no. 3861/12 pending before the Courts of Siena, which sees Mr. Baldassarri and other individuals, among whom certain managers of the Bank and the founding partners of the Enigma group, charged with the offence of criminal association aimed at "aggravated fraud in detriment of the assets of BMPS" (in journals, the so called 5 per cent. Gang). For the sake of completeness, it is worth noting that the request for indictment has been served on the concerned parties and the preliminary hearing has been set for 5 April 2017. The notice scheduling the hearing was also served on the Bank as the offended party. At such hearing the Bank appeared as a civil plaintiff against the accused parties seeking compensation of monetary and non-monetary damages. The proceedings are still pending.

Bank of Italy sanctioning procedures

(A) *Sanctioning procedure following the 2011-2012 inspections of Bank of Italy on the financial risks and determination processes of risk-weighted assets*

After inspections conducted in the period 2011-2012 on the financial risks and determination processes of risk-weighted assets, mainly focused on BMPS' finance structures, the Bank of Italy imposed on 28 March 2013:

a) to the members of the board of directors in office at the time of events (Mussari Giuseppe, Rabizzi Ernesto, Caltagirone Francesco Gaetano, Querci Carlo, Pisaneschi Andrea, Monaci Alfredo, Gorgoni Lorenzo, Campaini Turiddo, Borghi Fabio, De Courtois Frédéric Marie, Costantini Graziano, Capece Minutolo del Sasso Massimiliano), the members of the Board of Statutory Auditors (Di Tanno Tommaso, Turchi Marco, Serpi Paola), the General Manager and Chairman of the Steering Committee (Vigni Antonio) and the other members of the Steering Committee (Baldassarri Gian Luca, Massacesi Marco, Marino Antonio, Romito Nicolino, Rossi Fabrizio, Pompei Giancarlo, Barbarulo Angelo, Menzi Giuseppe), of the regime in the matter of containment of financial risks (article 53, subsection 1, lett. b), of the Banking Act);

b) to the abovementioned members of the board of directors and the General Manager for deficiencies in the organisation and internal controls (article 53, subsection 1, lett. b) and d), of the Banking Act);

c) to the abovementioned members of the Board of Statutory Auditors for deficiencies in internal controls (article 53, subsection 1, lett. b) e d), of the Banking Act); and

d) to the Bank, as jointly liable party,

monetary administrative sanctions pursuant to article 144 of the Banking Act for an overall amount of Euro 5,065,210 (see Supervision Bulletin no. 3, March 2013 of the Bank of Italy).

The Bank paid the above-mentioned sanctions as the jointly liable party and did not challenge such measure; the Bank commenced the preparatory activities for the exercise of the mandatory recourse actions against the individuals subject to sanctions with the possibility to stay such actions against top executives whose conduct, in respect of the irregularities charged, was not found to be wilful or due to gross negligence or where no corporate liability action had been notified; and this with limitation to the time necessary to conclude all appeals provided for by the legislation in force.

Recourse actions against Mr. Mussari, Mr. Vigni and Mr. Baldassarri were not stayed in consideration of the institution of civil action against the first two, and in consideration of the criminal events which led to the application of personal precautionary measures against Mr. Baldassarri.

In March 2014, the recourse action against the three above-mentioned individuals was instituted before the Court of Florence (section specialised in corporate matters). On 20 February 2015, the Court declared its functional lack of jurisdiction and recognised the territorial jurisdiction of the Courts of Siena granting the parties with a legal term to resume proceedings. The case was resumed before the Courts of Siena on 7 May 2015. At the hearing of 26 October 2015, the proceeding was declared stayed; on 23 November 2015, the Bank appealed such order before the Court of Cassation pursuant to article 42 of the Italian Civil Procedure Code. By order filed on 7 March 2017, the Court denied the Bank's requests, deeming in the case at hand, existing the trial suspension pursuant to artt. 295 and 337 of the Civil Procedure Code while waiting for the ruling on the appeal proceedings of the sanctioning measures instituted by the defendants.

(B) *Bank of Italy's sanctioning procedure for the determination of the economic benefits recognised to former General Manager Mr. Antonio Vigni, upon early termination of the employment relation*

On 25 July 2013, the Bank of Italy notified certain members of the board of directors in office at the time of events (Capece Minutolo del Sasso Massimiliano, Costantini Graziano, Gorgoni Lorenzo, Mussari Giuseppe, Rabizzi Ernesto, Campaini Turiddo, de Courtois Frédéric Marie, Monaci Alfredo, Pisaneschi Andrea, Querci Carlo), the members of the Board of Statutory Auditors (Di Tanno Tommaso, Serpi Paola, Turchi Marco) and the Bank, as a jointly liable party, a sanctioning measure relating to the infringement of the provisions issued by the Bank of Italy in the matter of remuneration and incentive policies and practices within banks and banking groups as regards the members of the board of directors, as well as the infringement of the same aforementioned provisions and disclosure duties to the supervisory body by members of the Board of Statutory Auditors; the infringement related to the remuneration (equal to gross Euro 4 million) recognised to former General Manager, Mr. Antonio Vigni, upon termination of the office. Total sanctions imposed amount to Euro 1,287,330 (see Supervisory Bulletin no. 7, July 2013 of the Bank of Italy).

The Bank paid the above-mentioned sanctions as the jointly liable party and did not challenge such measure; the Bank commenced the preparatory activities relating to the exercise of the mandatory recourse actions against the individuals subject to sanctions with the possibility to stay such actions against top executives whose conduct, in respect of the irregularities charged, was not found to be wilful or due to gross negligence or where no corporate liability action had been notified; and this with limitation to the time necessary to conclude all appeals provided for by the legislation in force.

The recourse action against the former Chairman of the board of directors, Giuseppe Mussari, was not stayed. In March 2014, the recourse action was brought before the Court of Florence (section specialised in business matter). By order dated 18 May 2015, the Court suspended the proceeding until the ruling on the appeal proceeding brought by Giuseppe Mussari against the sanctioning measure, deeming the existence of a prejudicial relationship between the two disputes.

(C) *Bank of Italy's sanctioning proceedings relating to the "FRESH 2008" transaction for infringement of the provisions in the matter if regulatory supervision and informative supervision for failed communications to the supervisory body*

In relation to the Fresh 2008 transaction, on December 2012 the Bank of Italy commenced a sanctioning proceeding for infringement of the provisions in the matter of regulatory supervision for failed compliance with the overall minimum capital requirement at consolidated level as at 30 June 2008, and informative supervision for failed communications to the supervisory body in respect of the indemnity granted to The Bank of New York (Luxembourg) S.A. in March of 2009 the ("**2009 BoNY Indemnity** "), as well as additional documentation concerning amendments to the usufruct agreement with J.P. Morgan Securities Ltd. (now J.P. Morgan Securities plc) and the payment of fees thereto between July 2008 and April 2009; furthermore additional violations related to inaccurate regulatory disclosures and irregularities in accounting and financial reporting modalities have been charged. On 10 October 2013, the Bank of Italy notified to BMPS, as the jointly liable party, the sanctioning measure with which administrative sanctions were imposed on for a total of Euro 3,472,540 against Directors (Mussari Giuseppe, Caltagirone Francesco Gaetano, Rabizzi Ernesto, Borghi Fabio, Campaini Turiddo, Gorgoni Lorenzo, Querci Carlo, Pisaneschi Andrea, Coccheri Lucia, Stefanini Pierluigi) and Statutory Auditors (Di Tanno Tommaso, Pizzichi Leonardo, Fabretti Pietro) in office at the time of events and the former General Manager Antonio Vigni in addition to some company executives in office at the time of events (Morelli Marco, Pirondini Daniele e Rizzi Raffaele Giovanni) (see Supervisory Bulletin no. 10, October 2013 of the Bank of Italy).

The Bank did not challenge the measure and paid the above-mentioned sanctions, as jointly liable party. As for the preceding measures, the Bank commenced the preparatory activities for the exercise of the recourse actions granting the suspension of such actions - for the time necessary to bring all appeals provided for by the applicable legislation - against the individuals subject to sanctions whose conduct, in respect of the irregularities charged, was not found to be wilful or due to gross negligence; no corporate liability action has been exercised and there are no indictment requests in the context of the related criminal proceedings pending before the Courts of Siena.

Therefore, the recourse action was not stayed against former Chairman, Giuseppe Mussari and former General Manager, Antonio Vigni, as well as against former members of the Board of Statutory Auditors, Tommaso Di Tanno, Pietro Fabretti and Leonardo Pizzichi and the Head of Legal function in office at the time of events, Raffaele Giovanni Rizzi.

In March 2014, the recourse action against the three above-mentioned individuals was instituted before the Court of Florence (section specialised in corporate matters) which, on 21 July 2015, declared its functional lack of jurisdiction and recognised the territorial jurisdiction of the Courts of Siena granting the parties with a legal term to resume proceedings. On 26 October 2015, the proceeding was resumed before the Courts of Siena; on 23 February 2016, the proceeding was declared stayed. On 21 March 2016, the Bank appealed such order before the Supreme Court of Cassation pursuant to article 42 of the Italian Civil Procedure Code. The court, by decision filed on 11 October 2017, rejected such appeal. It is worth noting that, in the meantime, the criminal proceedings against former Statutory Auditors Di Tanno, Fabretti and Pizzichi and former Head of Legal function, Raffaele Giovanni Rizzi have been dismissed.

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For the sake of completeness, it is worth noting that, after the in-depth analysis conducted on the "FRESH 2008" transaction and after prudential evaluations associated with the granting by the Bank in March 2009 of the 2009 BoNY Indemnity, the Bank of Italy, on 7 May 2013, adopted a measure – pursuant to article 53 and 67 of the Banking Act – which excluded from supervisory capital the FRESH 2008 Shares for an amount of Euro 76 million since the granting of the 2009 BoNY Indemnity would produce in substance the same effects of a forward purchase commitment of such securities, with re-assumption of enterprise risk by the Issuer. Furthermore, in December 2013, CONSOB requested, pursuant to article 114, subsection 5, of the Consolidated Finance Act, to adjust, at the latest on occasion of the financial statement as at 31 December 2013, the net equity consolidated amount, similar to that made for the purpose of determining the supervisory capital.

CONSOB's sanctioning procedure

(A) *CONSOB's sanctioning procedure for irregularities in the drafting of the prospectus relating to the 2008 capital increase*

By letter of 22 April 2013, CONSOB instituted a sanctioning procedure for the infringement of article 94, subsections 2 and 3, and article 113, subsection 1, of the Consolidated Finance Act in respect of possible irregularities in the drafting of the prospectus relating to the public offer of subscription and admission to trading of the Bank shares deriving from the capital increase resolved by the shareholders' meeting of 6 March 2008.

The allegations mainly concern the omission of information on total return swap agreements (so called "**TROR**") entered into by the Foundation with third financial counterparties and structured to enable the same Foundation to subscribe, indirectly and without immediate payment, for a 49 per cent. stake of FRESH 2008, corresponding to the interest held by the entity in the Bank at that time. The disclosure deficiency on the TROR and their key features allegedly prevented investors from forming an informed opinion on the Bank's capacity to raise "new" resources without the external support of a third-party guarantor as well as on the prospective structure of the Bank's ownership, due to the eligibility for conversion of the FRESH 2008 into BMPS' shares. More in general, the materiality of omissions allegedly prevented investors from forming an adequate opinion on the Bank's capital and financial position, economic results and outlook.

Infringements have been charged to Directors and Statutory Auditors *pro tempore* of the Bank in office at the time of events and to the Bank as a jointly liable party pursuant to article 195, subsection 9, of the Consolidated Finance Act in force at the time. In the context of the proceedings, the natural persons involved filed various objections of a general nature and pertaining to the subjective and objective element of the offense that were charged, but not in relation to the Bank, since the contested facts are ascribable to the conduct of single individuals which until now had no implications for the Bank pursuant to the regime laid down by Legislative Decree 231/2001.

With resolution no. 18885 of 17 April 2014, CONSOB concluded that the sanctioning procedure imposing monetary administrative sanctions for an overall amount equal to Euro 450,000 to directors and statutory auditors *pro tempore* of the Bank allocated among the single individuals depended on the office held by each officer and the function actually performed within the Bank.

The Bank did not challenge the measure and paid the above-mentioned sanctions, as a jointly liable party. As for the preceding measures, the Bank commenced the preparatory activities for the exercise of the recourse actions granting the suspension of such actions - for the time necessary to bring all appeals provided for by the applicable legislation - against the individuals subject to sanctions whose conduct, in respect of the irregularities charged, was not found to be wilful or due to gross negligence, no corporate liability action has been exercised and there are no indictment requests in the context of the related criminal proceedings pending before the Courts of Siena. The Bank instituted recourse action before the Courts of Siena against former Chairman Giuseppe Mussari; on 25 June 2017, the proceedings have been stayed until the ruling on the appeal proceeding brought by Giuseppe Mussari against the sanctioning measure.

(B) *CONSOB's sanctioning procedure for possible irregularities in the drafting of the prospectus relating to the 2011 capital increase*

By letter of 22 April 2013, CONSOB instituted a sanctioning procedure for infringement of article 94, subsections 2 and 3, and article 113, subsection 1, of the Consolidated Finance Act in respect of possible irregularities in the drafting of the prospectus relating to the public offer of subscription and admission to trading of the Bank's shares deriving from the capital increase resolved by the shareholders' meeting of 6 June 2011.

The allegations concern the lack of disclosure relating to the TROR agreements, entered into by the Foundation in 2008 with third financial counterparties and the subsequent dealings occurring in 2011, and the omitted information relating to the granting by the Bank of the 2009 BoNY Indemnity due to its potential impacts. In fact, with the granting of such indemnity the Bank would have assumed obligations in favour of The Bank of New York (Luxembourg) S.A., aimed at holding it harmless with reference to possible claims deriving from actions brought by holders of FRESH 2008, in respect of the shareholders' meeting or the resolutions adopted to introduce some amendments to the terms and conditions of the notes, made necessary by the requests made by the Bank of Italy as part of the prudential evaluations associated with the proceedings concerning the eligibility for computation of BMPS shares issued for FRESH 2008. As a result of the 2009 BoNY Indemnity, as mentioned above, the Bank of Italy excluded from regulatory capital the FRESH 2008 Shares for an amount of Euro 76 million, referred to securities held by an investor who had expressed some formal objections prior to

the shareholders' meeting and other shareholders who had voted against the resolutions in question.

Additionally, CONSOB considered that the four periodic fees paid by the Bank to J.P. Morgan between July 2008 and April 2009 pursuant to the usufruct agreement entered into between the parties in the context of the FRESH 2008 transaction, due to the characteristics of the obligations undertaken between the parties and a consequent different accounting and book classification of the shares subscribed for by J.P. Morgan, should have been recognised in a different manner, with direct effects on the Bank's net equity.

Accordingly, the Bank objected to the fact that, even subsequent to the effects on the prospectus of the incorporation by reference of the already published accounting documents, the erroneous recognition of (i) the usufruct fees; (ii) the effects of the 2009 BoNY Indemnity; and (iii) the transactions subject matter of restatement of 6 March 2013 ("Alexandria" and "Santorini"), would have prevented investors from reaching an informed assessment on the Bank's capital and financial situation, economic results and outlook.

Infringements have been charged to the directors and statutory auditors *pro tempore* of the Bank in office at the time of events and to the Bank as a jointly liable party. In the context of the proceedings, the natural persons involved filed various counterclaims, but the Bank did not, since the contested facts are ascribable to the conduct of single individuals which until now had no implications for the Bank pursuant to the regime laid down by Legislative Decree 231/2001.

With resolution no. 18886 of 18 April 2014, CONSOB concluded that the sanctioning procedure imposing monetary administrative sanctions for an overall amount equal to Euro 700,000 to directors and statutory auditors *pro tempore* of the Bank allocated among the single individuals depended on the office held by each officer, as well as its duration and the function actually performed within the Bank.

The Bank paid the sanction and instituted a recourse action against the former Chairman Giuseppe Mussari before the Courts of Siena. On 17 June 2017, the case has been stayed until the ruling on the appeal proceeding brought by Giuseppe Mussari against the sanctioning measure.

(C) *<u>CONSOB's sanctioning procedure for possible irregularities in the drafting of prospectuses relating to offers of other financial instruments issued by the Bank in the period 2008-2012</u>*

By letter of 30 May 2013, CONSOB instituted a sanctioning procedure for infringement of article 94, subsections 2 and 3, and article 113, subsection 1, of the Consolidated Finance Act in respect of possible irregularities in the registration documents of the Issuer published in the period June 2008 – June 2012 incorporated by reference in 27 base prospectuses relating to the issuance of bond loans and certificates.

In these proceedings, the supervisory authority made objections similar to those made in the sanctioning procedure for possible irregularities in the drafting of the prospectus relating to the 2011 capital increase as per Section (B) "*CONSOB's sanctioning procedure for possible irregularities in the drafting of the prospectus relating to the 2011 capital increase*" above. Even in this case, infringements were charged to directors and statutory auditors of the Bank in office at the time of events and to the Bank as jointly liable party. In the context of the proceedings, the natural persons involved filed various counterclaims, but the Bank did not since the contested facts are ascribable to the conduct of single individuals which up to date had no implications for the Bank pursuant to the regime laid down by Legislative Decree 231/2001.

With resolution no. 18924 of 21 May 2014, CONSOB concluded the sanctioning procedure imposing monetary administrative sanctions for an overall amount equal to Euro 750,000 to directors and statutory auditors *pro tempore* of the Bank allocated among the single individuals depending on the office held by each officer, as well as its duration and the function actually performed within the Bank.

The Bank paid the sanction and instituted a recourse action against the former chairman Giuseppe Mussari before the Courts of Siena. On 20 July 2017, the case has been stayed until the ruling on the appeal proceeding brought by Giuseppe Mussari against the sanctioning measure.

(D) *<u>CONSOB's sanctioning procedure for irregularities in the drafting of the offering documents for the 2008 and 2011 capital increases and for public offers of financial instruments issued by the Bank due to facts emerged after the institution of the three preceding procedures</u>*

By letter of 5 August 2013, CONSOB notified to have instituted another procedure in respect of irregularities emerging in the drafting of the offering documents for public offers of bonds and certificates and in respect of the prospectuses for the 2008 and 2011 capital increases subsequent to the supervisory activity conducted by its offices against the Bank and also after having received in June 2013 some disclosure from the same BMPS, containing the following documents: (i) the document signed on 1 October 2008 between the Bank and JP Morgan Securities Ltd. contextually with the amendments to the usufruct and swap agreements entered into on 16 April 2008 and agreed between the parties in accordance with what was requested by the Bank of Italy; and (ii) the document (so called termination agreement), entered into on 19 May 2009 between the same parties and aimed at the termination of the agreement under item (i) above.

According to CONSOB charges and in light of the new elements described above: (i) in financial statements as at 31 December 2008, BMPS recognised the capital increase reserved for JP Morgan Securities Ltd. as an asset, while, on the basis of the documentation gathered by the Authority and IAS-IFRS standards, it should have been posted as a financial liability; (ii) in the pro forma financial information as at 30 June 2007, which forms an integral part of the prospectus for BMPS's 2008 capital increase, the capital increase, reserved for JP Morgan, was erroneously recorded as shareholders' equity rather than as a debt instrument.

As a result, information would have been provided concerning economic, capital, even pro forma situations, affected by errors, since it is not compliant with Regulation EC no. 1606/2002: a) in respect of the case above identified sub (i), after the incorporation by reference of the 2008 financial statement, in the registration documents published in 2009 and 2010, incorporated by reference in no. 18 base prospectuses and relating to bond and certificate issuances and in the prospectus relating to the 2011capital increase; b) in respect of the case above identified sub (ii) in the prospectus relating to the 2008 capital increase for erroneous pro forma financial information as at 30 June 2007 included therein.

Such circumstances would allegedly constitute violations of article 94, subsections 2 and 3, of the Consolidated Finance Act, and article 5, subsection 1, of CONSOB Regulation No. 11971 of 14 May 1999, as well as article 113, subsection 1, of the Consolidated Finance Act.

Infringements have been charged to the directors and statutory auditors *pro tempore* of the Bank in office at the time of events and to the Bank as a jointly liable party. In the context of the proceedings, the natural persons involved filed various counterclaims, but the Bank did not since the contested facts are ascribable to the conduct of single individuals which until now had no implications for the Bank pursuant to the regime laid down by Legislative Decree 231/2001.

Based on trial findings, CONSOB deemed the conditions not satisfactory for the adoption of an additional sanctioning measure and, accordingly, ruled for the dismissal of the proceedings.

(E) CONSOB's sanctioning procedure for violation of article 187-ter of the Consolidated Finance Act (Market manipulation)

As a result of the irregularities found in the recognition and accounting and financial statement representation of the FRESH 2008 transaction components, CONSOB on 28 June 2013 instituted a sanctioning procedure against the Chairman of the board of directors, the General Manager and the Chief Financial Officer, respectively Giuseppe Mussari, Antonio Vigni and Daniele Pirondini, in office at the time of events, for violation of article 187-*ter* of the Consolidated Finance Act. The proceedings have been brought against BMPS as a jointly liable party and also as a liable party pursuant to article 187-*quinquies* of the Consolidated Finance Act.

The allegations would concern the publication of false data in the semi-annual report as at 30 June 2008 as regards tier 1 capital, regulatory capital as well as capital ratios. The Bank filed counterclaims to exclude its liability as a legal entity pursuant to article 187-*quinquies* of the Consolidated Finance Act, using similar defensive arguments to those which led the Siena public prosecutor to dismiss the allegations against the Bank under Legislative Decree 231/2001.

With resolution no. 18951 18 June 2014, CONSOB concluded the sanctioning procedure pursuant to article 187-ter of the Consolidated Finance Act, against the above-mentioned three persons imposing €750,000 in administrative sanctions, and an ancillary interdiction mandatory administrative sanction, pursuant to article 187-*quarter*, subsection 1, of the Consolidated Finance Act equal to twelve months, which implies the temporary inability to assume administration, management and control

functions in listed companies and companies belonging to the same group of listed companies.

With the same resolution, instead, the payment of the above-mentioned monetary sanctions imposed on the three individuals has been imposed on the Bank as a jointly liable entity, pursuant to article 6, subsection 3, of Law 89/1981, and an additional Euro 750,000 monetary sanction for the violation committed by the three above-mentioned individuals in favour of BMP has further been applied pursuant to article 187-*quinquies*, subsection 1, letter a) of the Consolidated Finance Act.

The Bank paid the sanctions and appealed in accordance with the terms of law with reference to the limitation to the application of the sanction pursuant to article 187-*quinquies*, subsection 1, letter a) of the Consolidated Finance Act. This appeal brought by the Bank before the Court of Appeal of Florence has been denied. As for the prior measures, the Bank commenced the preparatory activities to the exercise of the recourse actions against the persons subject to sanctions.

Against the three individuals subject to sanctions, recourse action has been brought before the Courts of Siena; on 25 June 2017, the trial has been stayed until the ruling on the appeal proceedings brought by the defendants against the sanctioning measure.

(F) CONSOB's sanctioning procedure for alleged violation of article 115 of the Consolidated Finance Act

With resolution no. 18669 of 2 October 2013, CONSOB imposed on BMPS Euro 300,000 in administrative monetary sanctions for alleged violation of article 115 of the Consolidated Finance Act in respect of a request for information, sent on 13 April 2012, concerning the FRESH 2003 securities and FRESH 2008 securities and the entering into by the Foundation of the "TROR" agreements with third financial parties for the indirect subscription of the securities in question. With decree of 6 June 2014, the Court of Appeal of Florence, after the appeal filed by the Bank, has reduced the formerly imposed administrative sanction to Euro 50,000.

(G) CONSOB's sanctioning procedure for violation of article 149, subsection 3, of the Consolidated Finance Act

By letter of 5 March 2014, CONSOB notified the Bank, as a jointly liable party, of an allegation letter relating to the violation of article 149, subsection 3, of the Consolidated Finance Act allegedly realised by the members of the board of statutory auditors in office at the time of events after the omitted communication to CONSOB of operational and organizational irregularities found in 2010 subsequent to verifications carried out by the internal audit function in the Bank's treasury finance process.

In line with the defence adopted by the Bank in the aforementioned sanctioning procedure brought by the Bank of Italy after its 2011-2012 inspections on financial risks and weighted assets determination processes, given the substantial coincidence of the underlying facts of the allegations, BMPS has not filed counterclaims.

By letter of 6 October 2014, CONSOB announced to have instituted the investigation phase of the decision after the conclusion of the investigation phase of deductions in the context of the same administrative procedure.

By letters dated 13 May 2015 and 11 June 2015, CONSOB's administrative sanctions office sent to the Bank a copy of the report, dated 16 February 2015, containing its justified decisions regarding the procedure under exam and the corresponding sanction.

By resolution no. 19390 of 11 September 2015, CONSOB concluded the sanctioning procedure imposing monetary sanctions for a total amount of Euro 90,000 on the members of the Board of Statutory Auditors in office at the time of events and the Bank, which paid such amount as a jointly liable party pursuant to article 195, subsection 9 of the Consolidated Finance Act in force at the time.

For the description of further sanctioning procedures brought by the Bank of Italy and CONSOB against the Issuer, reference is made to Section "*Sanctioning procedures*" below.

(H) CONSOB's sanctioning procedure for violation of article 187-ter of the Consolidated Finance Act in respect of the accounting recognition of the "Santorini" and "Alexandria" transactions

CONSOB instituted a sanctioning procedure against Giuseppe Mussari, Antonio Vigni, Gian Luca Baldassarri, Daniele Pirondini and another manager of the Bank and contested the dissemination,

through the financial statements as at 31 December 2008, 31 December 2009, 31 December 2010 and 31 December 2011, of data deriving from the failed initial recognition at fair value and posting "at open balances" of the "Alexandria" and "Santorini" transactions, finding in this circumstance the dissemination of false information capable of providing false and misleading indications on BMPS shares in violation of article187-*ter*, subsection 1, of the Consolidated Finance Act; in particular a false recognition in the aforementioned financial statements of the size of net equity, result for the year and regulatory capital has been contested.

The Bank is involved in the procedure in its capacity as a jointly liable legal person pursuant to article 6, subsection 3, of Law no. 689/1981 and as an entity liable pursuant to article 187-*quinquies* of the Consolidated Finance Act for the facts committed by the aforementioned individuals with limitation to false and misleading information of the sole consolidated financial statement as at 31 December 2011 since: (i) for financial statements preceding 2011 the 5 year statute of limitation provided for by article 28 of Law no. 689/1981 would be applicable and, furthermore, (ii) starting from financial statement as at 31 December 2012 the Bank published the *pro-forma* data referred to the combined effect of a recognition "at closed balances" of both the "Santorini" and "Alexandria" transactions.

In the allegation letter of 13 December 2016, the supervisory authority specified that the allegations were expressed on the assumption that the regime of the so called "double track" sanctioning resulting from the joint reading of article 187-*ter*, subsection 1, 187-*quinquies* and 187- *duodecies* of the Consolidated Finance Act was in force and compatible with the Italian legal framework. As at the date of this Base Prospectus the proceedings are still pending.

* * * *

After having paid the administrative sanctions imposed by the supervisory authorities, the Bank exercises the mandatory recourse actions against the individuals subject to sanctions granting the suspension of such action against the individuals whose conduct (i) in respect of the irregularities contested, was not found to be wilful or due to gross negligence; (ii) no corporate liability action has been notified; and (iii) there are no indictment requests in the context of the related pending criminal proceedings; and this with limitation to the time necessary to bring all appeals provided for by the applicable legislation. Some of the concerned individuals, after the letters of formal notice were sent, did not fulfil the payment obligation, and accordingly the institution of civil actions aimed at recovering amounts paid was therefore necessary.

No warranty can be given on the outcome of such actions which may also be challenged by the concerned individuals, aimed at delaying recovery actions, for the purpose of allowing them to bring the appeals of the sanctioning measures provided for by the law. Such activities may affect the duration of legal proceedings and reduce the possibility to recover the amounts claimed.

Civil Proceedings

(A) Civil actions instituted by shareholders in the context of the 2008, 2011, 2014 and 2015 capital increases

It should be noted that certain investors/shareholders of the Bank have started proceedings aimed at obtaining compensation for the damages incurred thereby due to the alleged inaccurate disclosure given by the Issuer in the context of the 2008, 2011, 2014 and 2015 capital increase transactions and, in any case, as regards the alleged inaccuracy of the price sensitive information given from 2008 to 2015, as at the date of this Base Prospectus, have filed no. 17 claims for damages before the Courts of Siena, Bari, Milan and Florence. The plaintiffs in these civil actions are suing the Bank mainly seeking a declaration of the Bank's liability under article 94 of the Consolidated Finance Act and the cancellation of the subscription agreement of the capital increases on the basis of wilful misconduct and/or essential error under the Italian Civil Code. As at the date of this Base Prospectus the overall *petitum* of the above mentioned proceedings amounts to around Euro 272.3 million, of which 226.1 million referable to the three main claims described below.

As at the date of this Base Prospectus, various claims have been brought by investors individually, through consumer associations or legal advisers (735, of which 69 intervened in the proceedings instituted by Marangoni Arnaldo and described below) for a total of around Euro 651 million of the claimed amount, where quantified, referred to alleged losses associated with the aforementioned events About 10 per cent. of such requests have then turned into civil proceedings (mostly with the intervention in the proceeding promoted by a sole shareholder).

Such claims have been brought individually or collectively through two professionals and ADUSBEF and although heterogeneous, they appear reasoned by generic references to the alleged violation, by the Bank, of the banking legislation with reference to the matter of disclosure and therefore have been rebutted by the Bank since deemed generic, ungrounded, unsupported by suitable documentary evidence and in some cases time barred. The amount of the residual *petitum* claimed by plaintiffs who did not bring legal actions is equal to around Euro 589 million.

For the sake of completeness, it should be noted that as at the date of this Base Prospectus, the Bank has recently been served with a writ of summons by which Alken Fund SICAV and Alken Luxembourg SA filed a suit before the Court of Milan against the Issuer, Nomura International, Giuseppe Mussari, Antonio Vigni, Alessandro Profumo, Fabrizio Viola and Paolo Salvadori for the purposes of claiming damages deriving from losses allegedly incurred following the investments carried out by the abovementioned funds relating to the purchase of BMPS' shares on the secondary market and the subscription of BMPS' 2014 and 2015 capital increases from January 2012 to September 2016 when the abovementioned funds liquidated entirely their positions thereof. Subsequently, the plaintiffs claim damages of at least Euro 434 million in relation to the allegedly false and misleading information associated with the erroneous accounting treatments of "Alexandria" and "Santorini" transactions as contained in the public financial information and financial statements, as well as into the prospectuses relating to 2014 and 2015 capital increases. The Issuer has been claimed liable pursuant to article 94 of the Consolidated Financial Act, in addition to the actions of the abovementioned directors and statutory auditors pursuant to the article 2049 of the Italian Civil Code. In this respect the Bank is evaluating, with the assistance of its lawyers, the line of defense which seems the more appropriate and the related actions.

* * * *

Please find below a description of the three most relevant disputes brought by shareholders and/or investors of the Bank, in relation to which the aggregate *petita* is equal to around Euro 226.1 million.

(i) *Dispute Banca Monte dei Paschi di Siena S.p.A. / Marangoni Arnaldo +124*

In July 2015, Arnaldo Marangoni sued the Bank claiming to have purchased shares between 2008 and 2013, both during the 2008 and 2011 capital increases, and on the electronic stock market on the basis of the alleged false disclosure given by the Bank on its capital, economic, financial, profit and management situation. During the trial through voluntary intervention, another 124 individuals came forward with the same contestations (although the respective positions are not fully homogeneous). The 124 interveners requested: (i) the declaration of falsehood of the individual financial statements, quarterly and semi-annual reports, the 2008 and 2011 capital increase prospectuses, and the price sensitive press releases relating to 2008, 2009, 2010, 2011 and 2012 of BMPS and, accordingly, (ii) BMPS conviction to pay damages. Opponents seek compensation of pecuniary and non-pecuniary damages for a *petitum* equal to around Euro 97 million. The action has been referred to the Panel of Judges for decision on the preliminary exceptions submitted by the Bank. It is worth noting that one of the interveners relinquished his request, and accordingly the *petitum* decreased to around Euro 89 million.

(ii) *Dispute Banca Monte dei Paschi di Siena S.p.A. / Coop Centro Italia S.c.p.a.*

By writ of summon dated 26 July 2016, Coop Centro Italia s.c.p.a. sued the Bank, together with CONSOB, before the Court of Florence (section specialised in corporate matters), for the hearing of 20 January 2017, claiming damages for an aggregate of Euro 85.5 million due to an alleged falsehood of the prospectuses relating to the Bank's 2008, 2011 and 2014 capital increases in which the company participated.

Specifically, the opponent claimed damages for Euro 20.3 million in respect of the 2008 capital increase and Euro 9.2 million for the 2011 capital increase, for contractual liability pursuant to article 1218 of the Italian Civil Code, as well as article 94, subsection 8 of the Consolidated Finance Act or article 2049 of the Italian Civil Code in relation to the actions of its then officers and employees, as well as, always pursuant to article 1218 of the Italian Civil Code and article 94, subsection 8 of the Consolidated Finance Act, for Euro 56 million, jointly and severally – or subordinately each to the extent of pertinence – with CONSOB, liable pursuant to articles 2043 and 2049 of the Italian Civil Code for the actions of the Authority and those of its commissioners and officers, with regard to the 2014 capital increase, the above in respect of the capital losses incurred as well as the loss of profit to

be determined during the trial. On the hearing of 12 October 2017 the judge reserved his position in relation to the preliminary requests.

(iii) _Dispute Banca Monte dei Paschi di Siena S.p.A. / Coofin S.r.l._

By writ of summon dated 26 July 2016, Coofin S.r.l. sued the Bank, together with CONSOB, before the Courts of Florence (section specialised in corporate matters), at the hearing of 20 January 2017, claiming overall damages of Euro 51.6 million due to alleged falsehood of the prospectuses relating to the Bank's 2008, 2011 and 2014 capital increases in which the company participated.

Specifically, the opponent claimed damages for approximately Euro 11.5 million for the 2008 capital increase and Euro 6.1 million for the 2011 capital increase, for contractual liability pursuant to article 1218 of the Italian Civil Code, as well as article 94, subsection 8 of Legislative Decree no. 58/98 or article 2049 of the Italian Civil Code in relation to the actions of its then officers and employees, as well as, always pursuant to article 1218 of the Italian Civil Code and article 94, subsection 8 of Legislative Decree no. 58/98, for Euro 34 million, jointly and severally – or subordinately each to the extent of pertinence – with CONSOB liable pursuant to articles 2043 and 2049 of the Italian Civil Code for the actions of the authority and those of its commissioners and officers, with regard to the 2014 capital increase, the above in respect of the capital losses incurred as well as the loss of profit to be determined during the trial. The next hearing is set for 13 March 2018 for the admission of preliminary evidence.

(B) _Corporate liability actions brought by the Bank for the "Alexandria" and "Santorini" transactions_

On 1 March 2013, the Bank instituted two separate proceedings for compensatory damages before the Courts of Florence (section specialised in corporate matters). In the first proceeding, related to the "Santorini" transaction, the Bank brought a corporate liability action pursuant to article 2392, 2393 and 2396 of the Italian Civil Code against the former General Manager, Antonio Vigni, as well as a claim for damages pursuant to article 2043 of the Italian Civil Code against Deutsche Bank for complicity in the non-fulfilments and/or offenses attributable to Antonio Vigni, asking for the joint conviction of the defendants for an amount not lower than Euro 500 million, then better specified during the trial.

In the second proceeding, in connection with the "Alexandria" transaction, the Bank brought a corporate liability action pursuant to article 2393 and 2396 of the Italian Civil Code against the former Chairman of the board of directors, Giuseppe Mussari, and the former General Manager, Antonio Vigni, as well as a claim for damages pursuant to article 2043 of the Italian Civil Code against Nomura for complicity in the non-fulfilments and/or offenses attributable to the two former company officers, seeking the joint conviction of the defendants for an amount not lower than Euro 700 million, then better specified during the trial. Nomura filed, on a conditional basis, a transversal request against Mr. Mussari and Mr. Vigni, from whom it seeks to be held harmless and indemnified in case the requests expressed by the Bank against it are upheld. A similar request has been filed by Mr. Mussari against Nomura, Mr. Vigni and Mr. Gian Luca Baldassarri, the summon to trial of whom was authorised with measure of 19 April 2014.

The corporate liability actions, initially authorized by the board of directors on 28 February 2013, were subsequently ratified by the Bank shareholders' meeting held on 29 April 2013.

The decision to institute the aforementioned corporate liability actions, also enforcing the non-contractual liability of the two investment banks, has been adopted in consideration of the opportunity to sue, in one single venue, both the former Bank's officers who had realised or contributed in the realization of the aforementioned financial transactions, and the two banking counterparties for having contributed in the non-fulfilments and/or unlawful acts put in place by the aforementioned Bank officers.

It is worth noting that the Bank, in its initial briefs commencing proceedings, expressly reserved the right to enforce, in another venue, the possible liability of Mussari, Vigni and other individuals, for other acts and/or transactions, as well as against Mr. Gianluca Baldassarri, former head of the Finance Area, in respect of the same transaction, as well as possible invalidity profiles of the agreements at the basis of the challenged financial transactions, including after the conclusion of the audits in progress and the developments in the enquiries of the investigating judges.

The Foundation, *Coordinamento delle Associazioni per la Difesa dell'Ambiente e la Ttela dei Diritti*

di Utenti e Consumatori ("**CODACONS**") and the *Associazione Difesa Consumatori ed Utenti Bancari, Finanziari ed Assicurativi* ("**ADUSBEF**") all intervened in both lawsuits in support of the Bank's positions.

As regards the action brought by BMPS against Antonio Vigni and Deutsche Bank, on 19 December 2013, a settlement agreement was reached between the Bank and Deutsche Bank regarding, *inter alia*, also the claim for damages (for more information in this respect reference is made to Chapter 5, Section "*Banca Monte dei Paschi di Siena S.p.A. – Major Events – Recent Developments – 2013 – "Santorini" Transaction – settlement agreement"* of this Base Prospectus). It is worth noting that this settlement agreement is limited to the internal liability share attributable to Deutsche Bank. In the action the Bank specified that, as a result of the transaction with Deutsche Bank, it obtained an economic benefit of Euro 221 million, accordingly asking the judge to take such amount into account in the determination of the *quantum* of the damages due by the defendant Vigni compared to the overall damage incurred thereby, subject to prior determination of the liability share ascribable in abstract to Deutsche Bank.

Accordingly, BMPS' liability action brought against Antonio Vigni as well as any other claim against other parties jointly liable with reference to the "Santorini" transaction remained unaffected. Such latter proceeding has ended, in the first instance, with the conviction of Antonio Vigni and compensation for pecuniary damage in favour of the Bank. With appeal suit, Mr. Vigni appealed the decision and introduced the appeal proceeding the first hearing of which was held on 13 April 2017 with deferral to 8 June 2017 for closing arguments, and then the case was retained for decision.

It is worth noting that Nomura, on the very same 1 March 2013 – but after the institution of the above mentioned corporate liability and damage action by the Bank before the Courts of Florence – instituted an action for declaration before the English Commercial Court (2013 Folio 292) seeking, *inter alia*, the declaration of the validity of the contracts relating to the restructuring of the "Alexandria" notes and the lack of Nomura's contractual liability or the lack of unjust enrichment. The Bank requested this case to be stayed in light of the risk of partial overlapping with the proceedings already instituted in Italy which, by admission of the same Nomura, have been instituted before the English one.

The Commercial Court did not uphold this request and accordingly the trial continued. The Bank appeared for these proceedings on 12 March 2014 enforcing the invalidity and ineffectiveness of the agreements relating to the transactions associated with the restructuring of the "Alexandria" notes seeking the restitution of the amounts quantified as Nomura's unjust enrichment, plus interest quantified in the measure of the ordinary trade receivable rates, and not to be held bound to pay any other amounts, or by any other obligations in respect of the aforementioned contracts, the full restitution of the amounts paid for the performance thereof.

It is worth noting that, in the context of the closing of the Alexandria transaction which occurred on 23 September 2015, the damage claim launched by the Issuer against Nomura in March 2013 before the Court of Florence has been settled. The settlement refers only to Nomura's liability share, without any prejudice to the corporate liability action against the former Chairman and former General Manager, and without prejudice to any other BMPS claim against other parties, external to Nomura, possibly jointly liable with respect to the "Alexandria" transaction. The settlement agreement also closes the proceeding brought by Nomura before the English court.

The liability action then continues against the former Chairman (who sued Mr. Baldassarri) and the former General Manager. Nomura remained part of the trial since it was addressee of indemnity requests by the former Chairman.

The case has been closed by the Court of Florence (decision n. 2755/2017, on 7 August 2017) as a consequence of the joining by BMPS as damaged party in the criminal proceeding pending before the Court of Milan. The Bank intends to promote the social responsibility action, authorized in the past by the shareholders' meeting, by starting a new civil proceeding.

Besides adhering to the actions brought by the Bank, the Foundation also instituted two independent suits, on one side, against Mr. Mussari, Mr. Vigni and Nomura and, on the other side, against Mr. Vigni and Deutsche Bank, seeking in both cases a declaration of liability of the defendants pursuant to article 2395 of the Italian Civil Code for the direct damage allegedly suffered by the Foundation for having subscribed for BMPS' capital increase approved in 2011, at a price different from that which

would have been correct, had the "Alexandria" and "Santorini" restructuring been duly represented in BMPS's financial statements.

As regards the proceeding instituted by the Foundation in respect of the "Santorini" transaction (in the context of which it asked for the conviction of the defendants to compensate an amount of Euro 333.6 million on account of pecuniary damage and Euro 47.5 million on account of non-pecuniary damage), Mr. Vigni has been authorised to sue the Bank by virtue of an indemnity undertaking (in respect of third party claims) allegedly undertaken by the Bank in his favour in the context of the consensual termination agreement of the directorship. The Bank, appearing for the proceeding to rebut the claims against it, preliminarily objected to the lack of jurisdiction of the Courts of Florence, deeming competent the Courts of Siena as the labour judge. Mr. Vigni adhered to such objection and hence relinquished the case against the Bank. The Judge then ordered the dismissal of the case between Mr. Vigni and the Bank. To the extent known to the Bank, the proceeding is currently pending between the Foundation and the defendants.

As regards the proceeding instituted by the Foundation in respect of the "Alexandria" transaction (in the context of which it asked for the conviction of the defendants to compensate an amount of Euro 268.8 million on account of pecuniary damage, then increased to Euro 329 million in accordance with the conclusions of the plaintiff's technical advisor, and Euro 46.4 million on account of non-pecuniary damage): (i) Mr. Vigni has been authorised to sue the Bank by virtue of the aforementioned indemnity undertaking (in respect of third party claims) allegedly undertaken by the Bank in his favour in the context of the consensual termination agreement of the directorship relation; (ii) Mr. Mussari has been authorised to sue the Bank as liable, pursuant to article 2049 of the Italian Civil Code, for the fact that some managers are allegedly liable for the realisation of the transaction carried out with Nomura. The Bank was then served the writs of summon in its capacity as third party sued by the aforementioned defendants in the proceedings autonomously brought by the Foundation and appeared for trial rebutting the requests filed against it. Furthermore, with subsequent authorised brief, Nomura extended its requests against the Bank, asking to determine the liability share ascribable to the latter and to be held harmless thereby for the liability share exceeding that ascribable thereto. However, the settlement agreement entered into between the Bank and Nomura on 23 September 2015 provides - *inter alia* – for such request to be relinquished. For more information on this settlement agreement, reference is made to Section "*Banca Monte dei Paschi di Siena S.p.A. – Major Events – Recent Developments – 2015 – "Alexandria" Transaction – settlement agreement"* of this Base Prospectus.

Even in this case Mr. Vigni relinquished the trial against the Bank as a result of the functional incompetence objection of the Courts of Florence, while the recourse/indemnity action brought by Mr. Mussari against the Bank continued. As at the date of this Base Prospectus the technical consultancy ordered by the judge is in progress.

* * * *

In the event that the conducts of the management in office at the time of events were relevant under a criminal point of view and in the context of any actions already instituted, the Bank also assessed whether to appear as the civil plaintiff at the criminal proceedings seeking restitutions and/or compensations (pursuant to article 185 and 187 of the Italian Criminal Code). Specifically, the Bank appeared as the civil plaintiff, in the context of the criminal proceedings pending before the Courts of Milan – in which the Nomura, Fresh, Santorini, Alexandria/Nomura, Chianti Classico cases have been combined – against Vigni, Mussari, Pirondini and Baldassarri seeking to obtain compensation for all pecuniary and non-pecuniary damages, however, with the order dated 6 April 2017 it has been excluded on the assumption of its joint liability with the defendants.

On 1 October 2016, a decree ordering a trial before the Courts of Milan – second criminal section for the hearing of 15 December 2016 was issued.

At the hearing of 15 December 2016 before the second criminal section of the Courts of Milan, subsequent to the request as civilly liable parties of the Banks BMPS, Nomura, Deutsche Bank, around 1,500 civil plaintiffs sued the Bank as a civilly liable party in respect of the crimes charged to the indicted former directors and managers.

In the course of the proceedings, by order of 6 April 2017 the Courts of Milan ruled on the exclusivity request of civil plaintiffs filed by the attorneys of the accused persons and civilly liable parties,

excluding some civil plaintiffs. To date, civil plaintiffs that appeared against the Bank are in aggregate around 1,250.

To date, a precise monetary figure relating to the overall compensatory requests and accordingly the economic burden the Bank will have to bear cannot be predicted, since many civil plaintiffs ' requests are not quantified and such quantification shall wait for the developments of the trial.

It is worth noting that on 12 May 2017, the indictment of officers Alessandro Profumo, Viola Fabrizio and Salvadori Paolo (the first two no longer in office) has been requested in the context of a new criminal proceeding before the Court of Milan where they are charged with the crimes of false corporate communications (article 2622 of the Italian Civil Code) in respect of the accounting of the "Santorini" and "Alexandria" transactions, as regards the Bank's financial statements, reports and other corporate communications, from 31 December 2012 until 31 December 2014 and as regards the semi-annual report as at 30 June 2015 as well as market manipulation (article 185 of the Consolidated Finance Act) in relation to communications released to the public with regard to the approval of the above mentioned financial statements and reports.

In relation to such proceeding, in which the Bank is identified as the offended person, the first hearing was held on 5 July 2017, during which several hundred individuals and some professional associations requested to join the proceeding. The judge for the preliminary hearing has deferred the hearing to 29 September 2017, in order to consider such requests as well as for the conjunction with the proceeding pending against BMPS as defendant pursuant to Legislative Decree 231/2001 for the same alleged conducts as Profumo, Viola and Salvadori. At the hearing of 29 September 2017, no. 304 of the no. 337 damaged parties that made the relevant request were admitted. The others have been excluded due to procedural deficiencies. At such hearing, the proceeding pending against the Bank as administrative accountable entity was merged in the proceeding pending against the individuals. The court then permitted the summons of the Bank as civilly liable party, deferring the proceeding to the hearings of 10 November 2017 and 24 November 2017 in order to permit the carrying out of the related notification.

Among the no. 304 civil parties admitted, no. 294 served the writ of summon upon the Bank as civilly liable. At the hearing held on 10 November 2017, wherein the Bank appeared as civilly liable, Mr. Salvadori's attorney has argued that the request for the referral of the trial for his client is null and void as his imputability could have been given only for the crime under the article 2622 of the Italian Civil Code and not for the crime under the article 185 of the Consolidated Finance Act. Relating to such point, the same attorney has also objected to the lack of competence of the Milan judicial authority. The public prosecutor – while taking part against the territorial competence matter – has agreed with the assumption of the voidance request as argued by Mr Salvadori's attorney who, at this point, required the transmission to his office of the entire proceeding – instead of Mr. Salvadori only – started on 12 May 2017 against Mr Profumo, Mr Viola and Mr Salvadori in order to avoid any fragmentation and for the purpose of restarting such proceedings as a single proceeding. The PHJ reserved his decision thereon which will be issued at the next hearing set on 24 November 2017. Should the decision reject the request, the hearing will continue with the discussion among the parties on the next 1, 15 and 22 December.

Conversely, it is currently pending, before the public prosecutor's office at the Court of Milan, in the conclusive phase of the preliminary investigation, another connected criminal proceeding solely against Mr. Profumo and Mr. Viola for alleged obstruction of the exercise of supervisory functions (article 2638 Italian Civil Code), in relation to the omission of information in cases considered relevant to resolve the matter of the accounting of the "Santorini" and "Alexandria" transactions. Such proceeding is therefore pending also against BMPS for the subsequent administrative offence pursuant to Legislative Decree no. 231/2001.

In the context of such proceedings the Bank is identified as the offended person. For more information reference is made to Section "*Criminal investigations and proceedings*" above.

Disputes arising from the Burden Sharing

At the beginning of September 2017, an holder of Burden Sharing Notes (for a nominal amount lower than Euro 50,000) filed an appeal before the Court of Genova pursuant to article 700 Italian Civil Procedure Code requesting, through emergency injunction, to order to the Bank to refrain from listing the Burden Sharing Shares on the market and to respect the guarantees provided by the Bank in

favour of the holders of Burden Sharing Notes pursuant to the original structure of the issuance.

According to the plaintiff: (i) the Decree 237 shall not apply to securities regulated by the Delaware law (which does not provide for any mandatory conversion scenario); (ii) the provisions of Decree 237 are in contradiction with the EU legislation on bank recovery resolution as the conversion into shares of the subordinated notes held by the plaintiff would have had a worse impact on the relevant holder than the one such holders may have had in case of winding-up of the Bank (the so called no creditors worse off principle); (iii) the Decree 237 is uncostitutional as unlawfully retroactive; (iv) termination due to excessive onerousness shall apply; (v) the listing of the shares arising out of the conversion – determining the allocation of an ISIN code for all the shares of the Bank (despite the current situation, in which a specific ISIN code is allocated for the shares arising out of the conversion) – would render impossible to re-establish the previously existing situation (as the plaintiff announced its will to request it in the relevant proceeding).

BMPS joined the proceeding challenging, as a preliminary matter, the lack of jurisdiction of the ordinary court (being the claim exclusive jurisdiction of the administrative court) and as a subordinated preliminary matter, the lack of jurisdiction of the Court of Genova (being competent for the dispute the Court of Florence, Section specialized in Corporate Matters). On the merit, BMPS has pointed out the inadmissibility and the viciousness of both the *prima facie* case and the exigent circumstances of the matter, demanding to reject such request.

On 17 October 2017, after the hearing for discussion held on 29 September 2017, the Judge dismissed the petition thereof. With regard to the preliminary matters challenged by the Bank, the judge rejected the lack of jurisdiction and the subordinated preliminary matter related to the lack of jurisdiction of the Court of Genova. The judge considered the precautionary question to be abstractly admissible. On the merit, the Judge deemed that the precautionary question was completely inadequate under the *periculum* profile, stating that – among the others – the listing of the shares resulting from the conversion of the Burden Sharing Notes will not produce any damage – further to the hypothetical damages arising from the conversion – to the holder whose subordinated notes are converted in Burden Sharing Shares. As at the date of the Base Prospectus, no complaint has been raised.

Disputes deriving from ordinary business

While carrying out its ordinary business, the Group, similarly to the other banking groups, is involved in various judicial proceedings concerning, *inter alia*, allegations in the matters of: claw-back, compound interest, placement of bond securities issued by governments and companies then defaulted, placement of schemes and financial products, which, the latter types show a consistent overall decrease and are not material in terms of *petitum* and related civil funds.

With respect to the proceedings regarding bankruptcy claw backs, the reform that has been implemented since 2005 has reduced and limited the scope of insolvency claw backs, especially those concerning direct payments in accounts. For those still eligible for proposal – or already pending at the date of entry into force of the reform – the Bank uses all available arguments to defend its position.

With respect to disputes concerning compound interests, interest and conditions – with a *petitum* quantified in Euro 387.6 million as at 30 September 2017 – since 1999 there has been a progressive increase of claims brought by account holders for the retrocession of interest expenses due to quarterly compound interest. In such cases, plaintiffs also contest the legality of the interest rate and the calculation method for the fees. In this latter respect, the interpretation introduced by the Supreme Court's, with effect from 2010 in the matter of usury - on the basis of which the maximum overdraft fees, even before the entry into force of Law 2/2009, had to be taken into account in the calculation of the global effective rate (GER), in contrast with the guidance of the Bank of Italy – is frequently the basis for lawsuits brought by customers. Most of the cases involve claims related to the balances of current accounts, but increasingly frequent are disputes concerning compound interests, referring to the legitimacy of the so-called "French compound interests" of mortgage loans, and the violations of Law 108/1996 on usury, on maturing loans.

In the matter of compound interests, the recent reform of article 120 of the Italian Banking Act, as amended first by Law no. 147 of 27 December 2013 and, then, by Law no. 49 of 8 April 2016, introduced relevant novelties in the matter of computation of interests and prohibition of their capitalization (such as, *inter alia*, the provisions according to which: (i) interests accrued in a current

account or in a payment account (both in favour of the Bank and in favour of the account holder) are calculated with the same frequency in any case not lower than one year and that (ii) accrued interests do not give rise to further interests, except for delay interests, and are calculated exclusively on capital and, in case of opening of credit lines settled in the current account, for overdrafts even in the absence of a credit line or in excess of the credit line).

The overall *petitum* for disputes deriving from the carrying out of the Group's ordinary business is equal as at 30 September 2017 to Euro 4,147.5 million.

As explained above, in light of the estimates made on the risk of unfavourable outcome in the proceedings under this section, provisions have been made for legal disputes in the overall "provision for risks and charges" equal to Euro 478 million as at 30 September 2017.

Civil disputes

Please find below the most relevant proceedings in terms of *petitum* (exceeding Euro 30 million) and relating state of the case as at the date of this Base Prospectus.

(A) *Civil dispute instituted by the extraordinary administration of SNIA S.p.A. before the Courts of Milan*

The action, brought by the Extraordinary Administration of SNIA S.p.A. ("**SNIA**") against the former directors, statutory auditors and (direct and indirect) shareholders of the same company (including BMPS), seeks the declaration of the defendants' joint liabilities for damages, originally not quantified, allegedly caused to the company. The action is grounded on intricate and complex corporate matters which concerned the company in the ten-year period between 1999 and 2009 which, as far as the Bank and other appearing parties are concerned, pivot around the company's demerger in 2003.

SNIA contested to the Bank, in its capacity as an indirect shareholder and a member of a shareholders' agreement of the controlling entity, to have a controlling and coordination position over it and to have adopted a conduct which would have caused damages to the company's assets, and, specifically: 1) the design and realisation of a distraction spin-off of the company, at the detriment of the shareholders and the creditors of the company; 2) the drafting and approval of untrue financial statements starting from financial year 2000, and, in particular, the drafting and approval of the financial statement 2002, since allegedly untrue and considered as a reference capital representation for the purpose of the spin-off, and the subsequent financial statements; 3) the origination of an environmental damage subject matter of claims by the Ministry of Environment and for Protection of the Land and Sea and the Ministry of Economy and Finance and of two distinct administrative managements (Commissioner of the Lagoon of Grado and Marano and Commissioner of the Sacco River; the "**Administrative Managements**"), now dissolved, and exercised in the context of the admission to liability in the insolvency procedures of SNIA and one subsidiary. During the trial, in support of the plaintiff's requests, the aforementioned Ministries appeared *ad adiuvandum*.

The *petitum*, not determinable in origin, on occasion of the clarification of requests was quantified, for a portion of the contested conducts, against the Bank and other defendants, in Euro 572 million, with further damages allegedly incurred and the requested compensation which remained undetermined.

With decision no. 1795/2016 of 10 February 2016, the Courts of Milan, having declared – *inter alia* - the inadmissibility of the interventions of the Ministries of Environment and Economy, rejected the claims of the extraordinary administration against the various parties, including the Bank, convicting the plaintiff to refund trial costs.

With separate writs of appeal, notified in March, the ministries on the one hand and the extraordinary administration on the other filed an appeal against the first instance ruling, repeating the grounds for the appeal and the arguments already expressed before the Court.

With its writ of appeal, SNIA asked the conviction of BMPS and the other defendants to pay, on a joint and several basis or, subordinately, on a partial basis, a) the amount of Euro 3.5 billion, conditional on the definition of the objection proceedings to liabilities of SNIA brought by the Ministries together with the aforementioned extraordinary administrators and pending before the Courts of Milan (or the different amount established during the trial, even in equity pursuant to article 1226 of the Italian Civil Code, or, subordinately, after quantification by CAE); b) the amount of Euro

572 million for damages so called "instantaneous" from spin-off (or Euro 388 million, or the different amount established during the trial, even in equity pursuant to article 1226 of the Italian Civil Code, or after quantification by CAE, with legal interests even compound interests and money revaluation of the amount due upon actual payment).

At the same time, with its writ of appeal, the ministries asked for the reform of the Court decision, asking for the *ad adiuvandum* intervention to be declared inadmissible and their exclusion illegitimate, ordering the referral of the trial to the first instance judge, for having him uphold the conclusions already expressed for the upholding of SNIA requests.

At the hearing of 19 July 2016, relating to the appeal filed by the Ministries, the Court of Appeal – having acknowledged the pending of the "parallel" proceeding brought by SNIA S.p.A.'s extraordinary administrators – deferred the hearing to 4 October 2016 for the purpose of combining the two appeals. The first hearings have been set – respectively – for 15 July and 4 October 2016. In the course of the latter hearing the Judge ordered that the appeals be combined and deferred, through reserve, its decision on the request to suspend the execution of the first instance decision. On 21 October 2016, the Court lifted its reservation and suspended the execution of the appealed decision. The next hearing is set for 20 June 2018 for closing arguments.

A1) Dispute filed by shareholders

By a writ of summon notified on 15 November 2017, four natural persons, acting as BMPS shareholders, filed a claim against the Bank and two other banks – which are also parties of such criminal proceeding – in front of the Court of Milan to request the condemnation in solid of the repayment of the alleged damages quantified at Euro 21.5 million as monetary damages and Euro 0.9 million as non-monetary damages. In particular, the plaintiffs, referring to the disclosure information issued by the Bank from 6 February 2013 in respect of facts and imputations arising from the criminal proceeding brought in front of the Court of Milan against the former managers of the Bank and of the others defendants – proceeding from which they were excluded as civil parties – claim for the reimbursement of the monetary damages deriving from the value' depreciation of the BMPS' shares owned by them on 31 December 2007 compared to the value of the same shares as at 6 February 2013 which is the publication date of the press release attesting to the occurrence of mistakes in the financial figures of the Bank relating to previous financial years.

The plaintiffs advance of such claims under articles 2049 and 2622 of the Italian Civil Code in relation to the crimes of false corporate communications together with other crimes committed by the managers of the defendants, as well as for the crimes actionable pursuant to the Legislative Decree no. 231/2001. The plaintiffs further claim for non-monetary damages under articles 185 of the Italian Criminal Code and 2043 of the Italian Civil Code. The hearing for the appearance is dated 10 April 2018. The Bank will appear by the terms, challenging the plaintiffs' claims. As at the date of the Base Prospectus, no provisions have been made in relation to such dispute.

A.2) Appeal filed by the Ministry of Environment against BMPS before the State Council

The Ministry of Environment filed an appeal against the Bank, as well as against other companies, for the voidance/reform of decision no. 3447/2016 rendered by the Regional Administrative Court of Lazio. Such decision was given in the context of a proceeding instituted before the Regional Administrative Court of Lazio by BMPS against the measure prot. no. 14568 of 24 July 2015, by which the Ministry of Environment ordered some companies, amongst which was BMPS, since deemed for various reasons involved in the pollution produced by the Caffaro industries in the three SIN Lagoon of Grado and Marano (Tor Viscosa), Basin of the Sacco River (Colleferro) and Brescia Caffaro (Brescia), to "*adopt with immediate effect all appropriate initiatives to control, limit, remove or otherwise manage any damage factor in the above sites ... complying with the clearance programme of the Extraordinary Administration or provision of this Ministry*" pursuant to article 305 subsection 2 lett. b of Legislative Decree 152/2006.

With decision no. 3447/2016, the TAR voided the ministerial measure and convicted the Ministry to pay trial expenses. The appeal has been filed without requesting the appeal decision to be stayed and, to date, the public hearing on the merits has not been scheduled yet.

(B) Civil dispute brought by Fatrotek S.r.l. before the Courts of Salerno

This action, where BMPS is sued together with other credit institutions and companies, concerns the declaration of alleged monetary and non-monetary damages suffered by the plaintiff company after an alleged illegitimate reporting to the central credit bureau. The action is currently in the investigation phase and the Judge, having ordered the renewal of the expert appraisal, withheld the case also to allow the parties to assess possible settlement agreements. The relating *petitum* is equal to Euro 157 million.

(C) Civil dispute instituted by the bankruptcy receivership of Medeghini S.p.A. in bankruptcy before the Courts of Brescia

The action concerns the claim for damages brought by the bankruptcy receivership of the company for certain banking transactions in the context of the capital increase carried out in 2007 by the subsequently failed company. In particular, the receivership complaints about the merely fictitious nature of the capital increase, since, as a consequence of a series of accounting movements, the amount destined thereto would have been transmitted to the company's accounts only formally, without turning into an effective capital increase.

During the trial an expert appraisal has been ordered at the end of which the expert appointed by one of the parties deemed established and documented a damage of around Euro 2.8 million, but does not specify whether such damage is to be ascribed to a conduct of the Bank or whether, instead, the damage is caused by the failed company directors against all creditors through the continuation of the business.

The case was officially deferred to 8 March 2018 for closing arguments. The *petitum* is equal to around Euro 155 million.

(D) Arbitration instituted by Elipso Finance S.r.l. before the Milan Arbitration Chamber

This arbitration concerns the indemnity claim consequent to alleged irregularities or documental deficiencies relating to loans originated and assigned by the Bank to the plaintiff's company. The competence of the Arbitration Chamber derives from a clause contained in the assignment agreements.

The arbitration panel ordered an expert appraisal which was completed and, subsequently, closing arguments were filed. On 14 June 2016, the partial award has been read which rejected the plaintiff's requests. The action is in progress for the issuing of final awards. The *petitum* is equal to Euro 100 million.

(E) Civil dispute instituted by De Masi S., Agriter S.r.l., De Masi G., Rottura, De Masi A, Chidem S.r.l., Retificio De Masi S.r.l., De Masi S.p.A., De Masi Costruzioni S.r.l., Zin.Cal. S.r.l., De Masi Agricoltura S.p.A., Calfin S.p.A. and Di Gioia before the Courts of Palmi

This action, where BMPS is sued together with other credit institutions, concerns the declaration of alleged damages suffered for the debiting of allegedly usury interests. On 24 April 2015, a letter of intents for the settlement of the financial and judicial dispute between "Gruppo De Masi" and the concerned credit institutions has been signed by the Ministry of Economic Development. As at the date of this Base Prospectus no settlement proposal was reached. The action, after various measures were adopted by the various investigation Judges who took over the trial, has been deferred to 30 November 2017 for the decision on the revocation of the technical expert admission order. The *petitum* is equal to Euro 100 million.

(F) Civil dispute instituted by the bankruptcy receivership of the company Antonio Amato & Company Molini Pastifici S.p.A. in liquidation before the Courts of Naples – section specialised in corporate matters

This action was brought by the bankruptcy receivership of the company against the former directors and statutory auditors of the subsequently failed company and against the Bank together with other credit institutions for the compensation of alleged damages, quantified in the difference between the procedure's assets and liabilities, deriving, *inter alia*, from a pool loan granted by lending institutions which would have delayed the emergence of the insolvency state of the subsequently failed company, worsening its state of financial distress. The case is under preliminary investigation.

The next hearing will be held on 23 November 2017 also to assign the mandate to the court appointed expert. The *petitum* is equal to Euro 90 million.

(G) *Disputes instituted by the extraordinary administration of Antonio Merloni S.p.A. before the Courts of Ancona and the Court of Appeal of Ancona*

These are two bankruptcy claw-back actions, brought principally pursuant to article 67, subsection 1, no. 2 of Bankruptcy Law and subordinately pursuant to article 67, subsection 2, of Bankruptcy Law, concerning current account movements relating to portfolio disposal transactions. The *petitum* amounts to overall Euro 82 million, of which around Euro 28 million relating to the first action, currently under preliminary investigation before the Courts of Ancona. The other action, with *petitum* equal to around Euro 54 million, has been decided with judgment rejecting the plaintiff's request, convicting the latter to refund expenses. The extraordinary administration procedure filed an appeal, currently pending before the Court of Appeal of Ancona.

As at the date of this Base Prospectus, a settlement agreement has been finalised, regulating all the litigation pending between the extraordinary administration procedure, the guarantor Antonio Merloni and the creditor banks and providing, *inter alia*, for the relinquishment of the action by the extraordinary administration procedure.

(H) *Dispute instituted by the extraordinary administration of Antonio Merloni S.p.A. before the Courts of Rome*

This civil dispute is brought by the extraordinary administration bodies against the directors and statutory auditors of the same solvent company and against the external audit firm and some banks part of the pool of lending banks, among which BMPS.

The plaintiff seeks the compensation of alleged damages deriving from restructuring activities and pool lending granted by the defendants, among which the Bank, when the company Merloni S.p.A. was in a state of acclaimed and irreversible crisis.

The proceeding is still in the initial stage, preliminary investigations having not started yet. Following several deferrals, the next hearing is set for 6 November, 2017.

The procedural fulfilments to relinquish the action brought by the Extraordinary Administration against the Bank has been finalised, thanks to a settlement agreement that has regulated the aggregate active and passive litigation pending between the extraordinary administration procedure, the guarantor Antonio Merloni and the creditor banks; notwithstanding the request of the Extraordinary Administration, no payment by the Bank was due under such settlement agreement. The overall *petitum* against the various defendants is equal to around Euro 323 million.

(I) *Civil disputes instituted by Riscossione Sicilia S.p.A. before the Courts of Palermo*

By writ of summon dated 15 July 2016, Riscossione Sicilia S.p.A. sued the Bank before the Courts of Palermo for contractual liability.

Riscossione Sicilia S.p.A.'s claim, as set out in the writ of summon, falls within the realm of the complex relations between the Bank and the plaintiff, originating from the transfer to Riscossione Sicilia S.p.A. (pursuant to Law Decree 203/05, converted into Law 248/05) of the stake held by BMPS in Monte Paschi Serit S.p.A. (then Serit Sicilia S.p.A.).

Specifically, Riscossione Sicilia S.p.A., in relation to the contractual provisions relating to such disposal, asked for the Bank's conviction, under its contractual liability for alleged contingent liabilities of Monte Paschi Serit S.p.A./Serit Sicilia S.p.A., provided that BMPS would have undertaken to guarantee the consistency of the assets of the investee company and to hold Riscossione Sicilia harmless for and against any possible contingent liability.

The *petitum* is equal to overall Euro 106.8 million. The next hearing has been deferred to 12 February 2018, for the admission of evidence.

With the petition filed on 30 November 2016 the BMPS asked the Courts of Palermo to order Riscossione Sicilia to immediately pay the amount of Euro 40 million, plus interest and expenses, due to the failed payment by the defendant of certain overdue instalments relating to two loan agreements. With decree issued on 17 January 2017 the Courts of Palermo ordered Riscossione Sicilia to pay the plaintiff the amount of Euro 40.7 million. The petition, together with the decree and the writ of execution for the amount for which interim execution was granted, has been notified to Riscossione Sicilia on 8 February 2017.

With writ of summon notified on 11 March 2017, Riscossione Sicilia filed an appeal against such injunctive relief asking for the withdrawal thereof and, as cross-claim, the conviction of the Bank to the payment of an amount of around Euro 66 million.

At the basis of its appeal Riscossione Sicilia alleged to be owed the amount of Euro 106.8 million by the Bank by virtue of some representations and warranties contained in two share assignment agreements with which the BMPS had assigned to Riscossione Sicilia the full share capital of the company Serit – Sicilia S.p.A.. In the writ of summon, Riscossione Sicilia acknowledged the circumstances according to which its requests are already the subject matter of another action pending before the same Courts.

BMPS duly appeared for trial asking for the rejection of the opponent's claims. The trial is in the initial stages and at the hearing of 9 October 2017, the Court, after denying the request of the opponent in relation to the combination of the proceeding with the one previously instituted, has made a reserve with reference to the requests made during the hearing by the parties, and namely, the granting of the enforceability of the injunctive decree, requested by the Bank and the stay of proceedings requested by the opponent.

For the sake of completeness it is highlighted that, on 19 October 2017 Riscossione Sicilia S.p.A. appealed against the decision issued by the Court of Palermo on 6 October 2017 – by which the court rejected the injunction pursuant article 700 of the Italian Civil Procedure Code promoted by Riscossione Sicilia S.p.A. against the suspension of the credit facility notified by the Bank. The discussion hearing will be held on 24 November 2017.

(J) *Civil dispute instituted by De Luca Aldo and De Luca & c. sas before the Courts of Spoleto*

By writ of summon notified on 5 August 2015, De Luca Aldo on his own account and the limited partnership De Luca S.a.s. sued the Bank before the Courts of Spoleto claiming that the reporting to the central credit bureau made by the Bank resulted in damages which would have led to the financial crisis of the various companies of the De Luca group represented by the loss of assets, alleged in the overall amount of around Euro 193.9 million, also on account of image damage.

At the hearing of 1 April 2016, the Bank insisted on the ritual and merits prejudicial exceptions already raised in the appearing writ and the judge granted a term for responses deferring the proceeding to the hearing of 4 November 2016. After such hearing the Judge retained the case. The trial which stayed for the death of the plaintiff De Luca Aldo notified on 27 March 2017, as at the date of this Base Prospectus has not been resumed by his heirs.

(K) *Civil dispute instituted by FDG S.p.A. in liquidation in E.A. before the Courts of Novara*

In this action, the plaintiff sued the pool of 8 lending banks, besides the Bank and the former Banca Antonveneta to seek the declaration of liability of the officers who participated in the drafting of the restructuring agreement and in association with the directors and liquidators of the company for violation of the provisions of artt. 216 and 217 of Bankruptcy Law, asking for the conviction of the pool of banks, on a joint and several basis, to compensate damages. The *petitum* is equal to around Euro 46 million. The decision was in favour of the Bank in the first and second instance and the action is currently pending before the Supreme Court of Cassation upon a petition filed by the extraordinary administration. The Bank duly appeared for trial.

(L) *Civil dispute instituted by Edilgarba s.r.l. before the Courts of Milan*

Edilgarba sued BMPS complaining about the BMPS' non-fulfilment of the obligations deriving from the land loan agreement entered into on 13 September 2006 between Edilgarba and Banca Antonveneta (subsequently BMPS). Edilgarba seeks compensation for alleged damages incurred (quantified at around Euro 28.5 million), as well as the damages to its image and commercial reputation (quantified as a minimum of Euro 3 million).

During the trial an expert appraisal had been ordered, and then supplemented, which established that the actual damage deriving from the transaction incurred by Edilgarba, which shall take into account the costs borne by the plaintiff, is equal to Euro 12 million, the receivable owed to the same bank by the funded company to Euro 10.6 million and the value of a mortgaged area estimated as Euro 6.6 million at the time of the renegotiation of the mortgage is to date equal to Euro 2.6 million. The action has been deferred to 5 December 2017 for closing arguments. The *petitum* amounts to around Euro 31.5 million.

(M) Civil dispute instituted by Mr. Giosuè Pagano and Lucia Siani pending before the Court of Appeal of Salerno

By decision of 12 March 2012, the Court of Salerno rejected the plaintiffs' requests, that asked for the conviction of BMPS and for the compensation of Euro 30 million and Euro 15 million in favour of the plaintiffs, for alleged liability of the Bank for the bankruptcy of a company, of which the plaintiff was the sole director and the other plaintiff the guarantor. The plaintiffs filed an appeal against such decision repeating the requests filed in the first instance proceeding and asking for the decision to be reformed and for the Bank to be convicted to the compensation for damages, to be liquidated in Euro 30 million and Euro 15 million.

By order of 14 October 2013, after retaining the case at the hearing of 3 October 2013, the Court of Appeal of Salerno rejected the suspension request of the enforceable nature of the first instance decision and set for closing arguments the hearing of 6 October 2016, subsequently postponed to 1 March 2018.

(N) Civil dispute instituted by Keo Lab S.r.l. before the Courts of Milan

Keo Lab S.r.l. sued the Bank complaining of the unjustified and unreasonable withdrawal of some credit lines previously granted thereto. In particular, the plaintiff asked for the compensation of all damages incurred, quantified at around Euro 41 million.

With decision no. 11900 of 9 October 2014, the Courts of Milan fully rejected the plaintiff's request, also requiring it to pay trial expenses.

Keo Lab S.r.l. appealed the decision before the Court of Appeal of Milan. The Bank then appeared in the second instance proceedings. Closing arguments were filed, on 20 December 2016, and the action has been retained for decision.

(O) Civil dispute instituted by Formenti Seleco S.p.A. in extraordinary administration before the Courts of Monza

Formenti Seleco S.p.A. in extraordinary administration instituted a proceeding – against a group of banks, amongst which is the Issuer – seeking compensation for damages associated with abusive granting of credit. The *petitum* in this action is around Euro 45 million. The Courts di Monza, with procedural justification, rejected the plaintiff's claims. Subsequently, Formenti Seleco appealed the decision before the Court of Appeal of Milan which, in turn, rejected the plaintiff's claims. The latter appealed the decision before the Supreme Court of Cassation which, with decision 11798/2017, confirmed the decision of the Court of Appeal of Milan, upholding only in part the appeal reason relating to the sharing of first instance trial expenses; the Court accordingly referred the case to the Court of Appeal of Milan for the sole decision on expenses. The measure of the Court of Appeal rejecting the principal request for conviction of the Bank, (with others) to the payment of the amount of Euro 45.6 million has then become definitive.

(P) Civil dispute instituted by Serventi Micheli Terzilia + Others against Zenith Bankruptcy, BMPS + other credit institutions before the Courts di Parma

In this action, the directors of failed Zenith S.p.A. – sued by the bankruptcy receiver with liability action pursuant to article 146 of Bankruptcy Law – in turn summon to court the Bank and other credit institutions seeking a declaration of their exclusive and/or joint liability, since they would have substituted themselves to the directors carrying out actions allowing for the return and/or acquisition of guarantees for the considerable amount of credits claimed. The action, after the judge has rejected investigation requests, has been deferred to 11 December 2018 for closing arguments. The *petitum* is equal to around Euro 26.5 million.

(Q) Civil dispute instituted by Società Agricola Baiardi Gianfranco before the Courts di Arezzo

In this action, the company accuses the Bank of the failed granting of a loan – upon which, due to the Bank's conduct, it legitimately relied not permitting it, by so doing, to finance already started development projects and causing relevant damages. The action, after the judge has rejected the parties' investigation requests, has been deferred for closing arguments from 31 October 2017 to the hearing of 28 November 2017. The *petitum* amounts to around Euro 28.4 million.

(R) Civil dispute instituted by the bankruptcy of Exefus S.p.A. before the Courts of Milan

This action concerns the retrocession request of amounts credited to the company's current accounts and corresponding to the realisable value of insurances and securities in the name of the failed company and pledged in favour of the Bank. The overall *petitum* amounts to around Euro 26.8 million. During the trial, expert appraisal had been ordered. The hearing for closing arguments, already set for 31 October 2017 has been postponed, upon request of the parties, to 27 February 2018 to allow for the finalisation of a settlement agreement on the action.

(S) *Civil dispute instituted by Congregazione Religiosa delle Suore Ancelle Divina Provvidenza before the Courts of Trani.*

The *petitum* for this action is equal to around Euro 20 million and concerns complaints on the terms and interests applied to current accounts relations. At the hearing held on 3 May 2017 closing arguments have been filed and the judge retained the case to prepare a settlement agreement to be proposed to the parties. At the hearing of 3 May 2017, already set for the clarification of conclusion, the judge reserved the decision upon a possible settlement proposal to be submitted to the parties. However, the judge lifted the reserve and decided not to submit to the parties any settlement proposal. As a consequence, the judge scheduled the hearing for specification of a final conclusions on 26 September 2018.

(T) *Summon to criminal proceeding of the Bank, as civilly liable party, by the Bankruptcy receivership of the company I.L.C.AM. before the Courts of Bari*

With decree summoning the civilly liable party, notified on 2 December 2014, the bankruptcy receivership of the company I.L.C.AM., in liquidation, appeared as civil plaintiff in criminal proceeding no. 3999/12 against, in particular, the former manager of the Bari Branch of the Bank, seeking his conviction and the compensation of the damages incurred by such company for the criminal offences ascribed thereto and summoned the Bank as a civilly liable party. From allegations (bankruptcy involving fraud) it can be inferred that the aforementioned accused person, with the contribution of others, withdrawn from the company the overall amount of around Euro 25.1 million.

In the context of such criminal proceeding, on 19 September 2017, a law enforcement officer has been interviewed in relation to the recollection of the banking transactions subject to the investigation activity. The next hearing, set for 28 November 2017, will focus on the examination of the expert of the Public Prosecutor.

(U) *Civil dispute instituted by the receivership of CO.E.STRA. S.p.A. before the Courts of Florence*

This action is instituted by CO.E.STRA. SpA against the Banks participating in the pool, on a joint and several basis, and seeks the declaration of the Banks' liability for having caused/worsened the company's distress by "abusively" granting credit in the context of the restructuring agreement, with subsequent obligations on the side of the Banks to compensate for the damages incurred by creditors asking for the conviction to pay the amount of Euro 34.7 million and subordinately Euro 4.1 million plus revaluation etc. At the hearing for closing arguments, held on 27 April before the Judge Mrs. Biggi, and scheduled after the hearing held on 1 March 2017 where the Judge ruled on investigation requests, the proceeding has been retained for decision.

(V) *Civil dispute in relation to UT2 Notes*

By a writ of summon dated 14 November 2016, a proceeding against the Bank related to Euro 498,200 UT2 Notes was started. The plaintiff claimed that the Bank – during the placement of such notes – violated the relevant applicable regulations, with particular reference to the Consolidated Finance Act and the provisions of the Italian Civil Code related to good faith, fairness and vitiated consent.

However, the plaintiff declared the subsequent assignment of the notes for a counter value of Euro 346,500.00 and – therefore and in addition to the above – requested that BMPS is condemned to pay for a loss of Euro 151,700.00 (arising out of the assignment of the notes) and the damage suffered in connection with the lower coupon yield of the notes over the years than the one that would be guaranteed by a normal BTP investment of equal duration, for a total demand that amounts to Euro 180,000.00.

In this respect, the plaintiff has no title to adhere to the Offer following the assignment of the UT2 Notes during the first months of 2016 (i.e. before the date of publication of Decree 237 and the Burden Sharing).

Furthermore, by a new writ of summon dated 20 October 2017, a new proceeding against the Bank was brought in front of the Court of Ascoli Piceno. The plaintiffs claim that the purchases of subordinated bonds Upper Tier II 2008/2018 – in August 2012 – were not supported by adequate disclosure information provided for by the Bank and that, in promoting and placing such product, it breached the specific sector regulation due to the failed compliance with the investors' risk profile.

The plaintiffs also claim that they were convinced – in July 2016 – to disinvest such bonds suffering a loss equal to Euro 6,163.59 and, consequently, they request to be refunded for such amount.

In this respect, it has to be noted that the plaintiffs are not entitled to adhere to the Offer as they sold the bonds attached thereon in 2016 prior to the publication of the Decree 237 and the implementation of the Burden Sharing.

Complaint to the Board of Statutory Auditors pursuant to article 2408 of the Italian Civil Code

During 2016, the Board of Statutory Auditors received several complaints, even qualified complaints pursuant to article 2408 of the Italian Civil Code.

For the latter, the shareholder status of each representative was verified, based on which it was possible to exclude the satisfaction of the conditions laid down by to article 2408, subsection 2 of the Italian Civil Code and, therefore, they were not complaints submitted by a majority of qualified shareholders.

In particular, it is worth noting that:

- With multiple letters received by the Board of Statutory Auditors between April and August 2016, Giuseppe Bivona, who stated that he was the legal representative of Bluebell Partners Limited, headquartered in London, noted that during the shareholders' meeting held on 14 April 2016 the Bank did not properly provide responses to the set of questions submitted in writing by shareholders pursuant to article 127-ter of the Consolidated Finance Act.

  In this regard, after detailed investigations carried out through in-depth analyses on all points raised by Shareholder Bivona, the Board of Statutory Auditors believed it could exclude the grounds of the complaint since "as things currently stand and on the basis of the information collected, the objections set forth therein were found to be groundless".

  In this regard, the relative investigation report specifically prepared by the Statutory Auditors was sent to CONSOB, as expressly requested by the supervisory authority, to which the shareholder had also sent the same complaint.

- With a letter of 21 July 2016 and a subsequent addendum dated 31 August 2016, shareholder Prof. Carmelo Catalano expressed his disapproval of the methods for disclosing and implementing the Restructuring Plan approved by the Bank on 29 July 2016. With an identical letter of 3 September 2016, Shareholder Raffaele Postiglione joined in this complaint.

  Subsequently, shareholder Catalano, with letters of 22 November 2016 and 29 November 2016, contested, based on several, detailed arguments, the 2016 Transaction – of a Euro 5 billion capital increase - which, at that time, the Bank was attempting to carry out. It is worth noting that the same text as Prof. Catalano's complaint of 29 November 2016 was also signed, by sending single separate complaints, by Shareholders: Grazia Calvino, Francesco Camarda, Michele Caponio, Francesco Dandrea, Silvio Dandrea, Irma De Rosa, Raimondo Domenico, Alessandro Franceschi, Rosa Gatta, Giovanni Napolitano, Giuseppe Napolitano, Andrea Peri, Francesco Pilato, Lina Platia and Raffaele Postiglione.

  In addition, it is worth noting that various other parties forwarded just as many complaints to the Board of Statutory Auditors identical to that sent on 29 November 2016 by Shareholder Catalano, but such parties did not provide the certification attesting their shareholder status which had been requested them; other parties instead simply sent a copy of the complaint sent by Shareholder Catalano, without even including their personal data or signing it.

  With limitation to these last two cases, the Board of Statutory Auditors decided that these complaints could not be accepted.

  Moving on to the content of the petitions containing the single text which, in essence, comes from Shareholder Catalano, the Board of Statutory Auditors conducted a specific investigation based on

which the Statutory Auditors reached the conclusion that they had not identified in them the presence of deeds contrary to the law referred to the Bank and its directors, and they deemed that what was indicated by the shareholders referred instead to the sphere of strategic and operational decisions made by the Bank itself and, therefore, did not fall within the scope of the specific responsibilities of the Control body, except for aspects concerning compliance with regulations, which in any event have been observed.

Nonetheless, the statutory auditors considered that, since the Euro 5 billion capital increase transaction (actual subject of the above-mentioned complaints) was not completed successfully, as announced by the Bank in a notice released on 26 December 2016 (once it had acknowledged the impossibility of completing the capital strengthening transaction), there is currently a substantial loss of interest in the facts subject to the request for investigation by the above-mentioned shareholders since, in any event, what was alleged could not generate any effects on current relations.

- Lastly, two separate complaints sent on 2 November 2016 and 10 December 2016, respectively, were received from Shareholder Marco Geremia Carlo Bava.

  In the first (2 November 2016), the shareholder referred to the occurred withdrawal (formalised on 31 October 2016) by Corrado Passera of his alternative proposal to the so called "Rock Transaction" which BMPS was carrying out at that time.

  With the second complaint (10 December 2016), not classified by the shareholder itself pursuant to article 2408 of the Italian Civil Code, but also pertaining to the same transaction, he criticised in particular the news leak that occurred on 9 December 2016 about the ECB's decision, which was later announced, not to extend the deadline set for the Euro 5 billion capital increase, in addition to several technical and execution-related procedures for that transaction.

  With respect to the arguments put forward, the statutory auditors agreed with the Shareholder on the seriousness of the episode linked to the December 2016 news leak, so much so that the Board of Statutory Auditors formally ensured that the Bank would decide to submit a report to the judicial authority. On the other hand, with respect to the other aspects of Mr Bava's complaint, the Board believed that it could rule out the soundness of the shareholder's claim since, as things currently stand and on the basis of the information in the hands of this body, the generic arguments presented are not pertinent to the control function of the body to which such complaints were addressed.

On 22 February 2016, the board of statutory auditors received a complaint pursuant to article 2408 of the Italian Civil Code sent by the Buon Governo Association, formed by small shareholders of the Bank and concerning an alleged interrelation between the current amount of impaired loans and the "*mala gestio*" in the lending process. The Board however deemed that, in light of the evidence emerging from the various verifications conducted by the CEB as part of the AQR and SREP processes, no aspects have been found that may confirm the allegations of the claimants. Such complaint has been mentioned in the report of the board of statutory auditors attached to the Financial Statement 2015.

By letter of 5 April 2017, the same association asked for a formal, complete response to the request expressed on 22 February 2016 which, as mentioned, was included in the 2015 Report and repeated the preceding request (dated 17 January 2017) referring to the content and the number of communications transmitted by the board of statutory auditors to the Bank of Italy in application of the Italian Banking Act, in the period between 1 January 2010 and the time that the letter was sent.

A response to the letter of 17 January 2017 had been provided on 15 February 2017, specifying that the requests referred to the communications sent to the Bank of Italy may not be satisfied due to the confidential nature of such documents which in fact exclusively pertain to the privileged relations in place between the board of statutory auditors and supervisory authorities.

With regards instead to the letter of 5 April 2017, qualifying as a complaint pursuant to article 2408 of the Italian Civil Code, the board responded on 11 April 2017 confirming that the 22 February 2016 complaint already received a response in the report of the board of statutory auditors attached to the Bank's Financial Statement as at 31 December 2015, while as regards the 17 January 2017 requests, repeated on 5 April 2017, it has been confirmed that the same may not be satisfied due to the mentioned confidentiality reasons.

Anti-money laundering

As at the date of this Base Prospectus twelve judicial proceedings are pending before the ordinary judicial authority in opposition to sanctioning decrees issued by the MEF in the past years against some employees of BMPS and the Bank (as a jointly liable party for the payment) for infringements of reporting obligations on suspicious transactions pursuant to Legislative Decree no. 231/2001. The overall amount of the opposed monetary sanctions is equal to Euro 4,618,471.68 of which Euro 1,536,047.12 was already paid.

The Bank's defence in the context of such proceedings aims, in particular, at illustrating the impossibility to detect, at the time of events, the suspicious elements of the transactions/ subject matter of the allegations, usually emerging only after an in-depth analyses carried out by the tax police and/or the judicial authority. The upholding of the Bank's position may entail the avoidance by the Courts of the sanctioning measure imposed by the MEF and, in case the payment of the sanction has already been executed, the recovery of the related amount.

For the sake of completeness it is worth noting that as at the date of this Base Prospectus twenty four administrative proceedings are pending – in addition to the twelve in respect of which the opposition proceeding are in progress – instituted by the competent authorities for the alleged violation of the anti-money laundering regime. The overall amount of the *petitum* related to the above mentioned administrative proceedings is equal to Euro 73,530,832.81.

Labour disputes

As at the date of this Base Prospectus the Bank is a party in around 647 judicial proceedings both active and passive of labour nature concerning, *inter alia*, appeals against individual dismissals, declaration requests of subordinate employment relations with indefinite duration, compensation for damages due to professional setbacks, requests for higher positions and miscellaneous economic claims.

Provisions were created to pay the costs associated with these proceedings, based on an internal assessment of the potential risk. The provisions the Bank created regarding this type of litigation are comprised within the "provision for risks and charges" which amounts to around Euro 49 million as at 30 September 2017.

It has to be further specified that, after the transfer of the back-office activities business unit to Fruendo S.r.l. occurred in January 2014 which concerned 1,064 resources, 634 employees (then were reduced to 489 as a results of renouncement/conciliation and deaths) sued the Bank before the Courts of Siena, Rome, Mantua and Lecce seeking, *inter alia*, the continuation of the employment relationship with the Bank, subject to prior declaration of ineffectiveness of the transfer agreement entered into with Fruendo S.r.l.

As at the date of this Base Prospectus, for one plaintiff a first instance action is pending with a hearing set for 23 February 2018, while for the other 488 first and/or second instance decisions already intervened with an unfavourable outcome for the Bank and consequent entitlement for the same employees to be rehired.

In particular, a first instance judgement was already issued for no. 145 employees (by the Courts of Lecce and Rome) that the Bank has already challenged and/or has reserved to challenge by the ritual terms in front of the competent Court of Appeal with hearings scheduled on 26 February 2018 and 26 November 2019. A second instance judgement has instead already occurred for no. 343 employees (by the Courts of Appeals of Florence, Rome and Brescia) against which the Bank has already promoted the challenge in front of the Supreme Court.

As at the date of this Base Prospectus, no. 72 employees (later reduced to 31 after no. 28 renouncements to be ratified in accordance with the law and no. 13 reconciliations) over no. 488 entitled, notified an act of precept by which they have demanded to be reinserted into the labour sole book ("*Libro Unico del Lavoro*") of the Bank and for restoring their contribution and insurance position, both opposed by the Bank with appeals in front of the labour section of the Court of Siena. At the latest hearings held on 11 October 2017, the trials have been referred for the discussion on 19 January 2018 and 14 February 2018.

For the sake of full disclosure, it is worth noting that both the Bank and Fruendo have filed a petition in the Court of Appeals in Rome, Lecce and Brescia for referral to the European Court of Justice of preliminary matters that are essential for the purposes of ruling. In particular, an assessment was

requested regarding the conformity to EC Directive 2001/23 of article 2112 of the Italian Civil Code, as interpreted by the decisions of the Supreme Court of Cassation, to which the appealed judgments conform, and whether:

- The transfer of an economic entity, functionally autonomous though not pre-existing, as it was identified by the transferor and the transferee at the time of the transfer, would not allow for the automatic transfer of employment relationships pursuant to article 2112 of the Italian Civil Code and therefore would require the consent of the concerned workers; and
- The automatic transfer of employment relationships pursuant to article 2112 of the Italian Civil Code would not be permitted and therefore the consent of the concerned workers would be required if, in the case of a transfer of an economic entity carrying out banking back office activities, the transferring Bank would maintain ownership of the applications and IT infrastructure, only granting them to the transferee for use for valuable consideration.

As at the date of this Base Prospectus the 488 people entitled to be rehired at the Bank, 72 employees (then reduced to 31 following 28 renouncements to be ratified in accordance with the applicable regulations and 13 occurred conciliations) notified writs of execution seeking to be re-entered in the Bank's Single Labour Book and to reinstate their assurance and contribution position, to which the Bank appealed before the Courts of Siena Labour Section. At the latest hearings held on 11 October 2017, the discussion has been deferred to 19 January 2018 and 14 February 2018.

Even if the Bank's opposition were not to lead to the results hoped for, to date no economic impact is expected for the Issuer deriving from the integration of arrears of salaries for the employees re-instated in office, having all plaintiffs retained the remuneration treatments granted within BMPS upon assignment of the business unit, and instead not having been subject to the salary decreases applied to MPS employees, by virtue of the trade union agreements of 19 December 2012 and 24 December 2015.

Given the above, the Bank, jointly with Fruendo S.r.l., is analysing the issues arising from the possible unfavourable ruling in the labour disputes.

Please finally note that 32 employees filed a complaint for the offence of failed malicious execution of judicial measure (article 388 criminal code). In the context of the criminal proceedings 567/17 instituted before the Criminal Courts of Siena, after the mentioned complaint, the public prosecutor filed a dismissal request against accused persons Tononi Massimo, Viola Fabrizio, Falciai Alessandro and Morelli Marco which was challenged by the claimants. At the panel hearing of 12 July 2017, aimed at ruling on the opposition to the dismissal request, proceedings have been deferred to 20 September 2017, due to irregularities in the serving of process. At the hearing of opposition to the dismissal request, the Court reserved the decision and communicated that such reserve would have been resolved within five days, such measure being transmitted with certified email (PEC). The judge for the preliminary hearing of Siena, in resolving the reserve formulated at the hearing of 20 September 2017, decided, with ordinance to the prosecutor, for further investigations, setting the term of 120 days for the carrying out of such investigations. Such ordinance has been notified to the accused individuals on 2 October 2017.

Furthermore, it is worth noting that during 2017, 52 employees of Fruendo S.r.l. (then reduced to 37 following renouncement/conciliation) have sued the Bank before the Court of Siena (with 6 separate proceedings) in order to demand the continuation of the working relationship with the Bank, following the declaration of illegal interposition of workforce ("*illecita interposizione di manodopera*"), so called "*appalto illecito*" (which has no criminal implications) in the context of services disposed through outsourcing from the Bank to Fruendo S.r.l., with hearings, as to date, set on 27 October 2017 and on 6 December 2017.

The amount of the *petitum* and of the related Fund for the Risks and Liabilities referred to in the labour litigation above described is also inclusive of such judicial claims.

In such case as well, the potential negative outcome of the proceeding would determine, as of today, the restoration of the employment relationship with the Bank without liabilities for the previous wage differences, since such appellants were continuously employed with Fruendo S.r.l. and have maintained the wage treatment granted by BMPS in the context of the transfer of the business unit.

For more information on the transfer of the back-office activities business unit to Fruendo S.r.l.

reference is made to Section "*Banca Monte dei Paschi di Siena S.p.A. – Major Events – Recent Developments – 2015 – Outsourcing of back office services*" of this Base Prospectus.

Finally, it is worth noting that, in relation to the Restructuring Plan, the evolution of the expenses related to the employees does not provide for the re-integration of those individuals that have summoned the Bank, in relation to the transfer of the back-office unit to Fruendo S.r.l. occurred in January 2014. Such circumstance is explicitly emphasised in the text of the commitment, with specific reference to the interested target, as well as number of employees and cost/income ratio. As a consequence of the above, in the event that the Bank, following an adverse judgement, were constrained to re-integrate the employees related to such litigation, the Bank will have discretion, with the agreement of DG Comp, to consequently adjust such target.

Sanctioning procedures

Bank of Italy

(A) *Bank of Italy's sanctioning procedures in the matter of anti-money laundering and transparency of transactions and banking and financial services*

Following the Bank of Italy's inspections between September 2012 and January 2013, the supervisory authority launched a sanctioning procedure in April 2013 against the members of the board of directors and Board of Statutory Auditors in office at the time of the events, several officers of the company and BMPS, as jointly liable parties, for irregularities in the transparency of transactions and banking and financial services and lack of fairness in the relations between brokers and clients (article 53, subsection 1, letters b) and d), article 67, subsection 1, letters b) and d), Title VI of the Banking Act and its implementing regulations) in particular with reference to the repricing modalities of credit assets and the definition of fee structures resulting from the removal of the maximum overdraft fee for loans and overdrafts. Furthermore, a sanctioning procedure against BMPS for irregularities concerning anti-money laundering and, in particular, for lack of customer due diligence, was also launched.

As regards the sanctioning procedure in the matter of anti-money laundering, the Bank of Italy deemed concluded the procedure, without imposing any sanctions.

In relation to the transparency of transactions and banking and financial services, the Bank of Italy imposed Euro 130,000 in sanctions against the former General Manager of BMPS and former Chief Compliance Officer in office in the reference period. The Bank has not appealed the decision and has proceeded with the payment of sanctions as a jointly liable party. The former Chief Compliance Officer has appealed the decision of the Regional Administrative Court of Lazio. On 26 February 2016, the Bank filed with the Court of Siena a recourse action against the former General Manager Antonio Vigni. On 14 November 2016, the Courts stayed the action until the definition of the appeal proceeding instituted by Mr. Vigni against the sanctioning procedure, deeming a prejudicial correlation existing between the two disputes.

(B) *Bank of Italy's sanctioning procedure concerning incorrect reporting on Government bonds*

In December 2012, the Bank of Italy launched sanctions in respect of reporting errors on a portfolio of Government bonds dating back to 2011; the procedure has been launched against the Directors, Statutory Auditors and General Manager of BMPS in office as at 30 June 2011. No sanctions have been applied to the Issuer as at the date of this Base Prospectus.

CONSOB

(C) *CONSOB's sanctioning procedures for failed compliance with the provisions in the matter of a public offer of financial instruments and rules concerning the provision of investment services*

Subsequent to investigations carried out in 2012, on 19 April 2013 CONSOB notified the opening of two proceedings concerning failed compliance with (1) the provisions in the matter of a public offer of financial instruments (article 95, subsection 1, lett. c), of the Consolidated Finance Act and article 34-*decies* of the Issuer's regulation) with reference to the conduction of the public offer of the product "Casaforte classe A" as part of the "Chianti Classico" transaction; and (2) the rules concerning the provision of investment services (article 21, subsection 1, lett. a) and d), and subsection 1-*bis*, lett. a), of the Consolidated Finance Act; article 15, 23 and 25 of the Joint Regulation Bank of Italy/CONSOB of 29 October 2007; article 39 and 40 of CONSOB regulation no.

16190 of 29 October 2007; article 8, subsection 1, of the Consolidated Finance Act). Specifically, as regards the procedure in *sub* (2), objections have been raised concerning: (i) irregularities relating to the conflict of interest regime; (ii) irregularities relating to the suitability assessment of transactions; (iii) irregularities relating to pricing procedures of products issued thereby; and (iv) disclosure of untrue or partial data and information.

The violations have been charged by CONSOB mainly against the members of the Bank's board of directors and Board of Statutory Auditors in office at the time of events, as well as against certain company officers. The Bank, as jointly liable party for the payment of sanctions, pursuant to article 195, subsection 9, of the Consolidated Finance Act, intervened in the various phases of the proceeding, transmitting to the supervisory authority accurate counterclaims for each allegation.

As regards the first proceedings in sub (1), with resolution no. 18850 of 2 April 2014, CONSOB closed it imposing pecuniary administrative sanctions for an aggregate amount of Euro 43,000, on the General Manager then in office and some managers of the Issuer's corporate structures and did not find any violation on the side of the members of the board of directors and Board of Statutory Auditors in office at the time of events. The measure has not been challenged by the Bank.

As regards the second proceedings in sub (2), with resolution no. 18856 of 9 April 2014, CONSOB closed it imposing pecuniary administrative sanctions for an aggregate amount of Euro 2,395,000 on officers and managers of the Bank's corporate structures. The measure has been appealed by the Bank before the Court of Appeal of Florence, which substantially denied the objections submitted by the same Bank and some sanctioned persons, with the sole exception of the upholding of one single objection relating to the position of a manager addressee of a sanction equal to Euro 3,000. After this the overall sanctions amount has been reduced to Euro 2,392,000. The appeal with the Supreme Court of Cassation is pending.

Both measures have been notified to the Bank, in its capacity as joint obligor, and the total amount of sanctions has been paid thereby in light of the joint obligation provided for by article 195, subsection 9, of the Consolidated Finance Act in force at the time.

The Bank commenced the preparatory activities to the exercise of the recourse actions under the terms of law, evaluating the filing thereof in relation to the bringing of appeals by the individuals subject to sanctions against the measures and also in relation to the position of those individuals found to have acted with wilful misconduct or gross negligence, those in respect of which a corporate liability action has been brought, there are indictment requests in the context of criminal proceedings or significant disputes are pending.

As regards the proceedings in sub (1), a recourse action has been brought against Mr. Vigni; the action, instituted before the Courts of Siena, has been deferred to 18 January 2018 having the Courts order the conduction of the assisted negotiation procedure.

As regards the proceedings in sub (2), a recourse action has been brought before the Courts of Siena against Mr. Mussari, Mr. Vigni and Mr. Baldassarri; on 23 April 2017, the action has been stayed until the ruling on the appeal proceedings brought by the defendants against the sanctioning measure.

*(D) Competition and Market Authority ("**AGCM**") Proceedings I794 of the AGCM – Remuneration of the SEDA service*

On 21 January 2016, the AGCM opened proceedings I794 against ABI in respect of the remuneration of the SEDA service. Such proceeding was subsequently extended (on 13 April 2016) to the eleven most important Italian banks, amongst which was BMPS. According to AGCM the interbank agreement for the remuneration of the SEDA service may represent an agreement restricting competition pursuant to article 101 of the Treaty on the Functioning of the European Union, since it would imply "the absence of any competitive pressure", with a consequent possible increase in overall prices to be borne by enterprises, which may be in turn charged to consumers.

The proceeding was closed by AGCM measure of 28 April 2017, notified on 15 May 2017. The authority resolved (i) that the parties (including BMPS) have put in place an agreement restricting competition, in breach of article 101 of the Treaty on the Functioning of the European Union (TFEU), (ii) that the same parties should cease the conduct in place and file a report illustrating the measures adopted to procure the ceasing of the infringement by 1 January 2018 and should refrain in the future from putting in place similar behaviours, (iii) that by reason of the non-seriousness of the

infringement, also in respect of the legislative and economic framework in which it has been implemented, no sanctions are applied.

BMPS challenged the measure before the TAR, the appeal has been filed and notified and the order setting the hearing is being awaited. The appeal does not suspend the execution of the measures provided by the authority.

(E) *Proceedings PS 10678 of the AGCM – Violations of the Consumer Code in the sale of investment diamonds*

On 25 January 2017, the AGCM opened proceedings PS 10678 against Diamond Private Investment S.p.A. (DPI) for two infringements of the Consumer Code (Legislative Decree 206/05) in the sale thereby of investment diamonds. The proceeding was extended, on 27 April 2017, to BMPS and another bank. BMPS has in place with DPI a reporting agreement and AGCM deemed the latter to have carried out an active role in the promotion and sale activity of investment diamonds.

On 26 July 2017, the AGCM deemed BMPS and the other bank involved in the proceeding not chargeable for one of the two infringements; therefore in relation to BMPS, the proceeding continued only for the residual infringement related to lack of transparency on contractual and documents and advertisings. Such proceeding ended by a measure dated 30 October 2017, in which the authority recognised the occurrence of an unfair commercial practice under the Legislative Decree 206/05 and, consequently, ordered sanctions for all parties involved thereon; BMPS has been charged with a sanction of Euro 2 million. The Bank is carrying on the challenge against such measure in front of the administrative regional court (TAR Lazio), provided that the payment deriving from such measure will be executed by 30 days as set thereon, making use of a fund risk set out in advance for this specific purpose.

Privacy

In April 2015 the tax police, lieutenant unit of Sant'Angelo dei Lombardi, served on BMPS two formal written notices for the alleged violation of articles 161 and 162, subsection 2-*bis* of Legislative Decree no. 196/2003 relating to the Data Protection Code inviting to pay a reduced sanction equal to Euro 128,000; the notice was served on the Bank in its role as "data controller" in the context of the activity carried out by a former financial advisor, against whom a criminal proceeding was instituted for the crimes committed during such activity, as well as jointly liable party. BMPS asked the data protection authority to dismiss the proceedings because the alleged events were ascribable only to the personal liability of the financial advisor without any involvement of the Bank in any respect whatsoever. As at the date of this Base Prospectus, the proceeding is still in progress. The maximum applicable sanction, should the authority deem the verifications grounded, amounts to Euro 624,000.

The tax police, lieutenant unit of Molfetta, in May 2015 served on the Bank a formal written notice for the alleged violation of articles 33 and 162, subsection 2-*bis* of Legislative Decree 30 June 2003, no. 196 "Data Protection Code". The administrative offence element of the proceedings provides for a maximum sanction of Euro 240,000. The notice was served on the Bank as joint obligor for the facts ascribable to an employee, who was charged with having processed customers' personal data omitting to comply with the security measures provided for by article 33 of the aforementioned "Code". On 4 June 2015, the Bank sent the data protection authority a defensive brief in which it requested the dismissal of the proceeding due to it being unrelated to the events. As at the date of this Base Prospectus, the proceeding is still in progress.

Judicial proceedings pursuant to Italian Legislative Decree 231/2001

In the context of a proceeding instituted by the public prosecutor's office at the Court of Forlì against several natural persons and three legal persons for money laundering and obstacle to the exercise of public supervisory functions, the Bank was charged with three administrative offenses from crime: obstruction of the exercise of public supervisory functions pursuant to article 2638 of the Italian Civil Code, money laundering pursuant to article 648-*bis* of the Italian Criminal Code and transnational criminal association (article 416 of the Italian Criminal Code).

In particular, the public prosecutor believes that the employees of the Forlì branch of the Bank, subject to the direction and supervision of people in senior positions within the Bank, have committed, in the interest and to the advantage of the Bank, the above described crimes.

According to the indictment, the commission of these offenses would have been possible due to the

breach of the direction and supervision obligations for the adoption and effective implementation by the Bank, prior to the commission of such offenses, of an organisation, management and control model suitable to prevent crimes such as those at hand.

BMPS' activities, subject to disputes, which are within the time period 2005-2008, relate to operations carried out by the branch of Forlì, on behalf of the Cassa di Risparmio of San Marino, on a management account opened with the Bank of Italy – Branch of Forlì on behalf of BMPS.

In consideration of the particular location within the Republic of San Marino, the Cassa di Risparmio of San Marino had in fact required the Forlì branch of BMPS to use such account to meet its cash demands, through the cash deposit/withdrawal operations at the relevant branch of the Bank of Italy.

Such operations, characterised by a strong movement of cash, and the anomalies charged by the judicial authority on the registration in the single digital archive (Archivio Unico Informatico - AUI) of the relating transactions, which at that time, considering unequivocal legislation on the relations between Italy and the Republic of San Marino, led BMPS to consider the Cassa di Risparmio of San Marino as a "licensed intermediary", representing the basis of the allegations against to Bank.

According to the judicial authority, such operations would have been put in place to prevent the identification of the criminal origin of such amounts, as well as the traceability of all hidden exchange operations related to illicit amounts.

In particular, the employees of the Forlì branch have been jointly charged with the crime of obstructing the functions of public supervisory authorities, money laundering, violation of the Italian anti-money laundering regime and criminal association in relation to the transnational crime pursuant to Law 146/2006, the commission of which is assumed to have been permitted because of the breach of the direction and supervision obligations by the Bank in the alleged absence of a suitable and effective organisational model.

The conduct put in place by employees, according to the opinion of the judicial authority, would have permitted to conceal the commission of money laundering offenses, not to acquire accurate information on the actual beneficiaries of such transactions nor on the real characteristics, purpose and nature of the related accounting movements with effects on the recordings in the AUI. The Bank's defence in these proceedings seeks to prove the non-existence of the crimes at the basis of the allegations against it and to demonstrate the adoption and effective implementation, yet at the time of events of an organization, management and control model suitable to prevent crimes such as those at hand.

The Preliminary Hearing Judge at the Court of Forlì ordered the indictment of the defendants, among which was BMPS, for profiles of administrative liability of entities.

At the hearing of 12 February 2015, the Court of Forlì, having examined the considerable preliminary objections presented by the attorneys of the indicted persons, denied its jurisdiction to know the case at hand, deeming competent, in respect of the allegations concerning the Bank, the Court of Rimini.

The Court of Rimini, with order of 3 March 2015, raised on the matter a negative conflict of territorial jurisdiction transferring the acts necessary for the decision with respect to the identification of the competent Courts to rule on the precautionary measures imposed on some accused persons, to the Court of Cassation. The Court of Cassation decided that, with respect to the confirmation of the precautionary measures submitted to its assessment, the competent court is the Court of Forlì. The PHJ of the Court of Rimini, given the need to define the venue to continue the trial, at the preliminary hearing of 28 April 2016, denied its territorial competence to rule on the merits, in favour of the Court of Forlì, raising negative conflict of jurisdiction and ordering the transmission of documents to the Court of Cassation to rule on the conflict. On 13 December 2016, the Court of Cassation hearing was held for the resolution of the conflict, and ruled that the competence lies with the Court of Forlì, before which the hearing of oral argument, set for 1 December 2017, will be held.

Following the compulsory charges ordered by the judge of the preliminary investigation of Milan for the crimes of false corporate communications and market manipulation, the Bank has been included in the register of the suspects for the administrative offences pursuant to article 25-*ter*, *lett. b)* and article 25-*sexies* of Legislative Decree 231/2001.

In such matter, relating to the process of accounting of the "Santorini" and "Alexandria" transactions following the restatement occurred in 2013, the public prosecutor's office at the Court of Milan

requested to drop the charges made in respect of Mr. Profumo, Mr. Viola and Mr. Salvadori. Such request was not granted. The above mentioned officers have been charged along with the Bank, as administrative accountable entity pursuant to Legislative Decree 231/2001.

At the preliminary hearing of 29 September 2017, to the pending proceeding against the Bank as administrative accountable entity was merged in the one pending against the individuals.

For the sake of completeness, it is worth noting that it is pending, within the public prosecutor's office at the Court of Milan, also the proceeding for administrative offences pursuant to Legislative Decree 231/2001, in relation to the criminal proceeding commenced against Mr. Profumo and Mr. Viola for the hypothesis of obstruction of the exercise of supervisory functions (article 2638 Italian Civil Code), which is currently in the phase of the conclusion of the preliminary investigation.

Disputes with CODACONS

(A) *Action brought by BMPS before the Courts of Rome*

By writ of summon of 5 March 2014, BMPS instituted before the Court of Rome a legal action against CODACONS, its legal representative and an external consultant of this association seeking their joint conviction to compensate the damages that have been and may be suffered (in future) by the Bank as a result of various conducts unjustly detrimental to the Bank's reputation. In particular, among the unlawful conducts at the basis of the action, there would be CODACONS publication of multiple press releases since the beginning of 2013, in which it claimed that the Bank had applied erroneous accounting treatment to the transactions related to the restructuring of the "Santorini" transaction and the "Alexandria" notes, as well as the unlawful resorting to the State aid procedure executed through the New Financial Instruments. Pecuniary damages of Euro 25 million and non-pecuniary damages of Euro 5 million have been claimed. The first hearing, set in the writ of summon for 20 November 2014, has been deferred to 14 January 2015. The defendants appeared for trial also raising counterclaims for damages, quantified by one of the defendants in approximately Euro 23 million and alleging the existence of a conflict of interest in the institution of the judgment such as to legitimate the appointment request of a special receiver pursuant to article 78 of the Italian Civil Procedure Code. The Judge set the next hearing for final arguments, on 17 January 2018.

(B) *Action brought by CODACONS before the Administrative Regional Court of Lazio*

By appeal pursuant to article 117 of Legislative Decree no. 104/2010 of 29 May-3 June 2015 against CONSOB and BMPS, CODACONS asked the Administrative Regional Court of Lazio to declare void, resolutions no. 0040843 of 20 May 2015 and no. 0041466 of 22 May 2015 with which CONSOB has approved the prospectus (and the relevant Supplement) of BMPS's capital increase and made a number of additional requests aimed at impeding CONSOB from authorising the resolved capital increase transaction. As a precautionary measure, the applicant also requested the adoption of single-judge measures pursuant to article 56 of Legislative Decree 104/2010 in order to obtain the cessation of those acts allegedly detrimental to the interests of depositors and shareholders. The initiative is based on an alleged insufficient investigation operated by CONSOB with respect to the transaction with Nomura and the related legal matters. The Bank appeared for trial and asked for the dismissal of all CODACONS requests, as did the CONSOB.

In order no. 2520/15, the Panel rejected the precautionary requests. CODACONS appealed the Administrative Regional Court order before the Council of State, while the Bank appeared for trial in support of the measure adopted by the TAR.

In decision no. 8750/15, the Administrative Regional Court rejected CODACONS appeal ordering the applicant to pay trial costs. On 1 July 2015, the State Council rejected the request for precautionary measures and postponed the hearing to 3 March 2016 for discussion. With decision of 21 July 2016, the State Council rejected the appeal and convicted CODACONS to pay trial costs. By petition of 18 September 2016, CODACONS asked for the revocation of the decisions of the State Council.

(C) *Action brought by CODACONS before the Administrative Regional Court of Lazio*

With the appeal of 24 February 2017 against the Presidency of the Council of Ministers, the Minister of Finance, CONSOB, Bank of Italy and BMPS, CODACONS asked the Administrative Regional Court of Lazio to declare the voidance of the acts and measures with unknown details adopted by the Minister of Finance in implementation of the provisions of Decree no. 237 of 21 December, 2016,

including the decree with unknown details adopted, following the approval by the Bank of Italy, by the Minister of Economy and Finance that granted the State guarantee to support the liquidity of BMPS, for the part in which it is not provided a compensation for all the investors that already suffered damages caused by losses in the share title of BMPS as a consequence of the illegal actions and/or omissions of the executives of the banking Group, Giuseppe Mussari, Antonio Vigni and Gianluca Baldassari, respectively, former president, former director and former responsible for the finance department of BMPS, today defendants in the criminal proceeding being held before the Court of Milan, Proc. no. 15171/2016. The Bank has joined such proceeding.

Tax disputes

The Bank and the main Group companies are involved in a number of tax disputes. As at the date of this Base Prospectus around 60 cases are pending, for approximately Euro 130 million for taxes and sanctions. The value of disputes also includes that associated with tax verifications closed for which no dispute is currently pending since the tax authority has not yet formalised any claim or contestation.

Pending disputes with a likely unfavourable outcome are of a limited number and amount (lower than Euro 8 million) and are guarded by adequate allocations to the overall Provision for Risks and Charges.

Please find below an overview of the most significant pending proceedings in terms of *petitum* (over Euro 10 million as taxes and penalties), and the main investigations in progress, which may have a potential impact but are not included in the pending proceedings.

Pending disputes

(A) *Revaluation substitute tax*

On 21 December 2011, two tax assessment notices were served on MPS Immobiliare, with regard to IRES and IRAP, respectively, issued based on the findings of a 2006 tax police audit report.

The dispute regards the correct determination of the calculation base for substitute tax on the payment of the revaluation surplus pursuant to Law 266/2005. The relevant liability (higher taxes and sanctions) is equal to Euro 31 million approximately. On 15 October 2013, the District Tax Court of Florence entirely upheld the arguments presented by the company, completely overruling the above tax claims also in light of similar case law decisions on the matter, some of which have become final after the tax authority's failure to appeal them before the Supreme Court. The tax authority lodged an appeal against the District Tax Committee's decision. Such appeal was rejected on 28 September 2015 by the competent Regional Tax Committee, which confirmed the favourable first instance decision. Against the second instance decision the tax authority filed an appeal before the Court of Cassation and the Bank filed a counterclaim.

The risk of an unfavourable outcome in the case has been assessed by the company and its advisers as remote.

(B) *Deductibility and pertinence of some costs of the former consolidated company Prima SGR S.p.A.*

BMPS is involved in the proceedings instituted by – at the time of events – the investee company Anima SGR S.p.A. against the allegations moved by the Regional Tax Office of Lombardy against Prima SGR S.p.A. (a company already included in the tax consolidation, now merged by incorporation into Anima SGR S.p.A.) for lack of competence or pertinence of some costs deducted in tax years 2006, 2007 and 2008.

The Regional Tax Office of Lombardy claimed in aggregate, Euro 20.6 million for taxes and sanctions: (i) for financial year 2006 taxes of around Euro 4.3 million and sanctions of around Euro 5.1 million; (ii) for financial year 2007 taxes of around Euro 2.8 million and sanctions of around Euro 3.6 million; (iii) for financial year 2008 taxes of around Euro 2.1 million and sanctions of around Euro 2.7 million.

The tax assessment notices were challenged before the Provincial Tax Committee of Milan. On 17 September 2015, the Tax Committee partially upheld the appeal concerning year 2006, while on 13 October 2015, it fully upheld the Bank's appeal regarding tax years 2007 and 2008.

As at the date of this Base Prospectus, the Financial Administration lodged an appeal against the decisions concerning financial years 2006, 2007 and 2008. For the sake of completeness, it is worth noting that, as concerns 2006, the Bank itself lodged an appeal against the decision issued by the Provincial Tax Committee in respect of the allegations on which the ruling was unfavourable for the Bank.

Furthermore, in respect of financial year 2006, on 2 May 2017, the Regional Direction of Lombardy notified a partial self-protection measure with which, upholding the request brought by the Bank, the sanctions relating to one of the allegations in the dispute have been disregarded and overall sanctions have been re-determined, for an amount of around Euro 3.9 million (instead of 5.1 million). Accordingly, net of the taxes already paid on a definitive basis, for around Euro 0.6 million, with reference to one allegation which was not challenged during the trial, the overall amount due to taxes and sanctions is reduced from Euro 20.6 million to Euro 18.8 million.

According to BMPS and its consultants, the risk of a negative outcome for this dispute shall be qualified as likely in respect of Euro 1.8 million and possible in respect of Euro 17 million.

(C) *Deductibility of the capital loss posted by the former consolidated company AXA MPS Assicurazioni Vita in respect of the securities held thereby in Monte Sicav*

BMPS is involved in the legal action instituted by the investee company AXA MPS Assicurazioni Vita (a company already included in the tax consolidation) against the complaints lodged by the Regional Tax Office of Lazio regarding the tax treatment of the write-downs carried out in respect of the units held in the Luxembourg-based open-ended investment company Monte Sicav.

In particular, the Tax Office claimed that the qualification of the securities issued by Monte Sicav Equity was not correct (i.e. series or mass issued securities), and that such securities should have instead been qualified as equity interests and consequently been governed by the relevant regime. More specifically, the auditors maintained that the adjustments in value of Monte Sicav Equity's securities could not be entirely deducted in the financial year during which they had been posted, *i.e.* 2004, as was done by the company.

As a consequence, the Regional Tax Office of Lazio included the entire amount of value adjustments posted and deducted by AXA MPS Assicurazioni Vita within the tax base, claiming that the company shall pay higher taxes and sanctions for Euro 26.2 million.

The tax claims were challenged by AXA MPS Assicurazioni Vita and BMPS before the District Tax Committee of Rome, which has entirely rejected the petitions lodged by the two companies. Such decision was further confirmed on appeal, when the first instance judgment was totally upheld by the Regional Tax Committee of Lazio. The proceedings are currently pending before the Supreme Court.

BMPS and its advisers believe that the risk of a negative outcome in the case can be qualified as likely for Euro 3 million and possible for Euro 23.2 million.

Without prejudice to the *petitum* limits of these legal actions, it should however be noted – in light of the similarities of claims with those described above – that, in line with the claims relating to tax period 2004, the tax authority claimed that the value adjustments posted by AXA MPS Assicurazioni Vita for Monte Sicav's shares could not be deducted entirely for the tax period 2003 either. The tax claim was challenged by AXA MPS Assicurazioni Vita before the District Tax Committee of Rome, which entirely rejected the petition. The first instance judgment was promptly challenged but in its decision of 26 May 2015 (filed on 17 June 2015) the competent Regional Tax Committee rejected the appeal. These proceedings are also pending before the Supreme Court.

BMPS and its advisers believe that the risk of a negative outcome in the case is to be qualified as likely for Euro 1 million and possible for around Euro 6.5 million.

It is worth noting that the impact on BMPS of the liabilities (if any) arising from the above proceedings depends on the involvement (if any) of BMPS deriving from the guarantee clauses set out in the assignment agreements of AXA MPS Assicurazioni Vita.

(D) *Maritime leasing*

MPS Leasing & Factoring S.p.A. has been served a number of tax assessment notices regarding the previous use of maritime leasing agreements, which can be qualified as a typical case of "abuse of rights". In such notices, the tax authority included the difference between the ordinary rate currently

in force and the VAT flat-rate within the tax base, as clarified by Ministerial Circular no. 49/2002. The proceedings pending to date regard tax years 2004 to 2010 (excluding 2005, in respect of which a final decision has been taken), for an amount of approximately Euro 11.6 million. As at the date of this Base Prospectus the judgments handed down at the various stages of the dispute for years 2004 to 2010, were favourable to the company, except for year 2006, in respect of which the petition was partially upheld on appeal. The company and its advisers believe that there is a remote risk of a negative outcome in the case in respect of all disputes in general. With regard to the claims for year 2006 alone, upheld by the Appeal Court and regarding a potential liability (in terms of taxes and sanctions) of approximately Euro 165 thousand, the risk has been deemed to be possible.

Investigations in progress

(A) *Tax audit in progress on the Consorzio Operativo Gruppo Montepaschi*

On 27 April 2016, the Siena tax police, started a tax audit against the subsidiary Consorzio Operativo Montepaschi Group, for the purpose of direct taxes, VAT and IRAP, for the period between 1 January 2011 and 27 April 2016.

At the end of the verification, on 20 October 2016 a written allegation notice had been notified to the company, with which, for financial years 2011 to 2015, higher taxes were contested for Euro 17.5 million, for IRES and IRAP purposes, and for Euro 9.1 million for VAT purposes, plus the related legal sanctions, that are not quantified.

On 13 December 2016 the company, with a view of business cost effectiveness, although still convinced of the correctness of its behaviours, adhered to the assessment proposal with adhesion prepared by the same Financial Administration solely as regards financial year 2011. The proposal, in relation to certain VAT determinations, carried out its effects also with reference to financial years beyond those subject matter of the investigation. In particular, such agreement provided: (i) for the cancellation of all contestations for IRES and IRAP purposes for 2011 for an overall amount of Euro 11.7 million of tax, (ii) the partial acquiescence to VAT contestations referred to 2011, for a tax deficiency equal to Euro 7.9 million, (iii) the cancellation of VAT contestations related to periods beyond 2011, equal to Euro 1.2 million of tax, (iv) the almost full cancellation of sanctions (save for those specified below). The above mentioned adhesion entailed the payment of higher VAT, interests and sanctions to a reduced extent for an overall amount equal to Euro 9.3 million (of which Euro 7.9 million for tax deficiency and Euro 1.4 million for sanctions and interests). In this respect, it is worth noting that, by virtue of a specific agreement entered into on 6 December 2016 with the relevant contractual counterparties (involved in the transactions subject matter of the VAT contestations), the company has started the activities for the recovery against such counterparties, by way of recourse, an amount of around Euro 5.4 million, reducing by so doing the overall charges deriving from the above adhesion (Euro 9.3 million) to an amount of around Euro 3.9 million. As regards 2011 VAT contestations which were not included in the aforementioned adhesion, on 22 December 2016 the Financial Administration notified a sanctioning deed, for an amount of around Euro 0.4 million, in respect of which the company filed a defensive brief on 16 February 2017.

In conclusion, as a consequence of the aforementioned adhesion (specifically for the cancellation of certain contestations for VAT purposes which also concerned tax periods subsequent to 2011), higher taxes disputed in the context of the written allegation notice, as a consequence of the aforementioned verification activity were reduced to an overall amount equal to Euro 5.8 million (for IRES and IRAP). To the same written allegation notice are associated potential sanctions (relating to IRES, IRAP and VAT) for an estimated value of an additional Euro 2.6 million. The company, assisted by its consultants, is assessing the appropriate initiatives in protection of its interests and believes that the matters the subject of the allegation in the context of the above mentioned tax investigation do not have a perpetual effect on the years following 2015.

(B) *Tax audit in progress on Consum.it S.p.A.*

On 23 May 2017, the tax authority, Tuscany Regional Direction, started a verification on the incorporated Consum.it S.p.A., for IRES, IRAP, VAT and withholding tax purposes for tax period 2014. Upon conclusion of such verification, on 25 September 2017, a formal notice of assessment was notified to the Bank, which challenged an IRAP tax deficiency of about Euro 123,000.

(C) *Tax audit in progress on the 2012 tax return*

Finally, it is worth noting that on 22 December 2016, the Revenue Agency, Regional Direction of Tuscany, has sent a request of clarification to the Bank in relation to the integrative tax return for tax period 2012, to which the Bank has duly responded on 31 January 2017. Following such request, on initiative of the same Regional Direction, on 13 September 2017, a meeting was held which discussed all the aspects relating to the correct fulfilment of the legal requirements in relation to the matter of the withholding agent connected to the FRESH securities (Floating Rate Equity Linked Subordinated Hybrid Preferred Securities), issued in the context of the complex recapitalization carried out during 2008, the relevant income effects being represented by such integrative tax return. Following the meeting, the relevant minutes of fair hearing were released, which represented the necessity of additional investigations on the matter. On 15 September 2017, the Regional Direction sent an enquiry which required further clarification and extended the pending investigation to the period from 2008 to 2014 (included). On 11 October 2017, the Bank, with the support of its advisors, filed its defensive memorandum aimed at underlying the reasoning supporting the correctness of its action. Subsequently, within the context of a complex technical discussion, the regional office has supposed the failed deduction's application to the payments executed in favour of the counterparty – at least over a part thereof – and the Bank restated the reasons behind the fairness of its conduct. As at the date of this Base Prospectus the verification is on-going and no relevant hypothesis has been formalised.

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With the exception of the foregoing, during the 12 months preceding the date of this Base Prospectus, there were no governmental proceedings, legal or arbitration (including proceedings pending or threatened of which BMPS is aware) that may have or has had in the recent past a material impact on the financial situation or the profitability of the Issuer.

MANAGEMENT OF THE BANK

The Bank is managed by a board of directors tasked with the strategic supervision. The board of directors in office consists of 13 members. Each member of the board of directors meets the requirements prescribed by the BMPS by-laws.

The chief executive officer is appointed by the board of directors.

Under the Italian civil code, the Bank is required to have a board of statutory auditors.

BMPS's by-laws allow also the possibility for the board of directors to constitute an executive committee to which it can delegate its own powers determining the limits of such delegation. As at the date of this Base Prospectus, the executive committee has not yet been established.

Board of directors

The board of directors was appointed by the ordinary shareholders' meeting of 16 April 2015 and such appointment will expire on the date of the shareholders' meeting approving the financial statements for the year ending on 31 December 2017. On 12 April 2017, following the resignation of Christian Whamond on 30 December 2016, the ordinary shareholder meetings approved the reduction of the number of the board of directors' members from 14 to 13, until the expiration of its mandate.

The board of directors is currently made up as follows.

Name	**Position**	**Date of birth**
Alessandro Falciai	chairman	18 January 1961
Roberto Isolani (*)	deputy chairman	18 June 1964
Marco Morelli	chief executive officer and general manager	08 December 1961
Stefania Bariatti (*)	director	28 October 1956
Béatrice Derouvroy Bernard	director	15 May 1963
Fiorella Bianchi	director	05 May 1954
Daniele Bonvicini (*)	director	31 January 1949
Lucia Calvosa (*)	director	26 June 1961
Maria Elena Cappello (*)	director	24 July 1968
Massimo Egidi (*)	director	01 December 1942
Fiorella Kostoris (*)	director	05 May 1945
Stefania Truzzoli (*)	director	15 November 1968
Antonino Turicchi	director	13 March 1965

Notes:

(*) Independent director pursuant to the Consolidated Finance Act and the Corporate Governance Code of Listed Companies (the "Corporate Governance Code").

Each member of the board of directors must meet the requirements of integrity, professionalism and

independence as prescribed by law and by BMPS' by-laws. Verification of these requirements must be notified to the Bank of Italy in accordance with its supervisory provisions and to the public pursuant to the Issuers' Regulations and to the self-regulatory code. The members of the board of directors are all domiciled for their position at the Bank's registered office.

In addition, further to the significant variation in the shareholding of the Bank and the acquisition of the control by the MEF as per the Burden Sharing and the Precautionary Recapitalization, the Bank is currently discussing and evaluating the possibility of amendments to its by-laws, in particular with respect to the provisions related to the process for the appointment of the corporate bodies. As a result of such discussions, the shareholders' meeting may be convened, by the end of 2017, for the relevant resolutions, following the communications provided by applicable law. It cannot be excluded that it will be proposed to the shareholders the renewal of the current board of directors prior to the end of their mandate.

The following table sets out the positions of members of administrative, management and supervisory bodies held by the current members of the Bank's board of directors and the qualifying shareholdings (i.e., shareholdings exceeding 3 per cent. of share capital in companies with listed shares and 10 per cent. in non-listed companies) they currently hold or which they held in the five years prior to the date hereof.

Name	**Position held**	**Status of position**	**Company in which owned shares**	**Status of ownership**
Alessandro Falciai	sole director of Millenium Partecipazioni S.r.l.	current	Millenium Partecipazioni S.r.l.	current
	chairman of the board of directors and chief executive officer of La Farnia Società Agricola a r.l.	current	Altair S.r.l.	current
	chairman of the board of directors and sole director of I Puntoni Società Agricola a r.l.	current	Assiteca SIM S.p.A.	current
	sole director of Millenium Directory Holding S.r.l.	current		
	sole director of Deneb S.r.l.	current		
	sole director of Alcione S.r.l.	current		
	sole director of Cassiopea S.r.l.	current		
	director of Stemgem SA	current		
	chairman of the board of directors of Aldebaran S.r.l.	current		
	chairman of the board of directors of Assiteca SIM S.p.A.	past		
	chairman of the board of directors of Hyperstem SA	past		
	chairman of the board of directors of Mondo Marine S.p.A.	past		
	chairman of the board of directors and sole director of Digital Multimedia Technologies S.p.A.	past		
Roberto Isolani	member of the global management	current		

Name	Position held	Status of position	Company in which owned shares	Status of ownership
	committee of BTG Pactual			
	director of EFG Bank	current		
	director of EFG International	current		
	director of BSI SA	past		
	director of Concessioni Italiane S.p.A.	past		
	group chief executive officer of BSI SA	past		
Marco Morelli	deputy chairman of the executive committee of Onlus Foundation Gino Rigoldi	current		
	director of AXA MPS Assicurazioni Vita S.p.A.	past		
	director of AXA MPS Assicurazioni Danni S.p.A.	past		
	chairman of Widiba S.p.A	past		
	deputy chairman of Bank of America Merrill Lynch for Europe, Middle-East and Africa	past		
	chief executive officer of Bank of America Merrill Lynch Italy	past		
	deputy general manager and deputy chief executive officer of Gruppo Intesa Sanpaolo	past		
Stefania Bariatti	chairman of the board of directors of SIAS S.p.A.	current		
	director of ASTM S.p.A.	current		
	sole director of Canova Guerrazzi s.s.	current		
	director of Centro Nazionale di Prevenzione e Difesa Sociale CNPDS	past		
Béatrice Derouvroy Bernard	director of AXA MPS Assicurazioni Vita S.p.A.	current		
	director of AXA MPS Assicurazioni Danni S.p.A.	current		
	chairman of the board of directors of AXA MPS Financial Limited	current		

Name	Position held	Status of position	Company in which owned shares	Status of ownership
	director of ABI	current		
	general manager of AXA MPS Assicurazioni Vita S.p.A	past		
	general manager of AXA MPS Assicurazioni Danni S.p.A.	past		
Fiorella Bianchi	general manager of Conad del Tirreno Soc. Coop.	current		
	director of CO.RI.M. S.r.l.	current		
	deputy chairman of the board of directors of Discovery S.r.l.	current		
	chairman of the board of directors of Commerciale Ortoinvest S.r.l.	current		
	managing director of Futura S.r.l.	current		
	director of S.D.I. Società Distribuzione Imballaggi S.r.l.	current		
	deputy chairman of the board of directors of Ladis S.r.l.	current		
	chairman of the board of directors of SD Store Siena srl	current		
	deputy chairman of the board of directors of Store Siena srl	current		
	director of Universo S.r.l.	current		
	director of Etrusco S.r.l.	past		
	deputy chairman of the board of directors of I Negozini S.r.l.	past		
	deputy chairman of the board of directors of Leccia S.r.l.	past		
	deputy chairman of the board of directors of Luce S.r.l.	past		
	deputy chairman of the board of directors of Lunigiana S.r.l.	past		
	deputy chairman of the board of directors of Oriolo S.r.l.	past		
	deputy chairman of the board of directors of Perseo S.r.l.	past		
	deputy chairman of the board of directors of Picasso S.r.l.	past		
	deputy chairman of the board of directors of Sagial S.r.l.	past		

Name	Position held	Status of position	Company in which owned shares	Status of ownership
	deputy chairman of the board of directors of Santo Stefano S.r.l.	past		
	director of Sapori di Forno S.r.l.	past		
	deputy chairman of the board of directors of SD Store Firenze S.r.l.	past		
	director of Sviluppo Roma Supermercati S.r.l.	past		
	deputy chairman of the board of directors of Atlantide S.r.l.	past		
	deputy chairman of the board of directors of Carina S.r.l.	past		
	director of CBF S.r.l.	past		
	director of Cecina Sviluppo S.r.l.	past		
	sole director of Civitas S.r.l. in liquidazione	past		
	director of Clodia Commerciale S.r.l.	past		
	chairman of the board of directors of B.S.L. Commerciale S.r.l.	past		
	director of Disco S.r.l.	past		
	chairman of the board of directors of Emilio S.r.l.	past		
	chairman of the board of directors of Foods Italy S.r.l.	past		
	deputy chairman of the board of directors of Glicine S.r.l.	past		
	deputy chairman of the board of directors of Iper Diamante S.r.l. in liquidazione	past		
	director of Kasmene S.r.l.	past		
	deputy chairman of the board of directors of Lazio Invest S.r.l.	past		
	deputy chairman of the board of directors of Marilia S.r.l.	past		
	director of Mercurio S.r.l.	past		
	director of Supermercati Isola d’Elba S.r.l.	past		
	chairman of the board of directors of Supermercati Margherita S.r.l.	past		
	deputy chairman of the board of	past		

Name	Position held	Status of position	Company in which owned shares	Status of ownership
	directors of Cisama S.r.l. in liquidazione			
	deputy chairman of the board of directors of Non Food Conad Centro Italia S.r.l. in liquidazione	past		
	deputy chairman of the board of directors of Orizzonte S.r.l.	past		
	chairman of the board of directors of Saccmarket S.r.l. in liquidazione cancellata	past		
	chairman of the board of directors of Iper Pisa S.r.l.	past		
	chairman of the board of directors of Sagittario S.r.l. in liquidazione cancellata	past		
	chairman of the board of directors of Supermercati Sibilla S.r.l.	past		
	director of Signo S.r.l.	past		
	deputy chairman of the board of directors of Teckno Service S.r.l.	past		
	deputy chairman of the board of directors of Tirreno Insieme S.r.l.	past		
	director of Tropico S.r.l.	past		
Daniele Bonvicini	director of Ferretti S.p.A.	past		
	director of Colussi S.p.A.	past		
	director of Serralunga S.r.l.	past		
	chairman of the board of directors of Compartinvest S.r.l.	past		
Lucia Calvosa	director of Telecom Italia S.p.A.	current	EDC 2015 S.r.l.	current
	chairman of the control and risk committee of Telecom Italia S.p.A.	current		
	director of Editoriale Il Fatto S.p.A.	current		
	director of Crescita S.p.A.	current		
Maria Elena Cappello	director and member of the internal control committee of Prysmian S.p.A.	current		

Name	Position held	Status of position	Company in which owned shares	Status of ownership
	director and chairman of the Remuneration and Designation Committee of Saipem S.p.A.	current		
	director and member of the internal control committee of Italia Online S.p.A.	current		
	director of FEEM Fondazione Eni Enrico Mattei	current		
	director of A2A S.p.A.	past		
	director and chairman of the remuneration and nomination committee of SACE S.p.A.	past		
	management director of A2A S.p.A.	past		
	chief executive officer and deputy chairman of Nokia Siemens Networks Italia S.p.A. (today Nokia)	past		
	chief executive officer and deputy chairman of Nokia Siemens Networks S.p.A. (today Nokia)	past		
Massimo Egidi	director of Telecom Italia S.p.A.	past		
	chairman of Bruno Kessler Foundation of Trento	past		
Fiorella Kostoris	-			
Stefania Truzzoli	director of Consorzio TOPIX	current		
	chief executive officer of Atlanet S.p.A.	past		
	director of BT Italia S.p.A.	past		
	director of Erptech S.p.A.	past		
Antonino Turicchi	director of Autostrade per l'Italia S.p.A.	current		
	director of CAI (Compagnia Aerea Italiana) S.p.A.	current		
	director of Leonardo S.p.A.	current		
	chairman of STMicroelectronics Holding N.V.	current		
	manager of Direzione VII - Finanze e privatizzazioni of MEF	current		
	chairman of the board of directors of	past		

Name	Position held	Status of position	Company in which owned shares	Status of ownership
	Alstom S.p.A.			
	chairman of the board of directors of Alstom Power Italia S.p.A.	past		
	chairman of the board of directors of Alstom Grid S.p.A.	past		
	director of Alstom Ferroviaria S.p.A.	past		
	director of Alitalia S.p.A.	past		
	director of Atlantia S.p.A.	past		

The business address of each member of the board of directors is Banca Monte dei Paschi di Siena S.p.A., Piazza Salimbeni 3, 53100, Siena, Italy.

The board of directors meets regularly at the Bank's registered office. Meetings of the board of directors are convened on a monthly basis upon request of the chairman. Meetings may also be convened upon reasonable and detailed request of at least three directors or upon written request of the board of statutory auditors or at least every statutory auditor addressed to the chairman. Meetings may be held in person or through video-conference. The quorum for meetings of the board of directors is a majority of the directors in office. Resolutions are adopted by the vote of a majority of the directors attending the meetings.

Chief Executive Officer

The chief executive officer carries out its functions within the limits of the delegated powers and in the manner determined by the board of directors. The chief executive officer also holds powers to be exercised as a matter of urgency by the chairman of the board of directors, in the event of an absence or impediment of him or any substitute.

The chief executive officer is Mr. Marco Morelli who was appointed by the board of directors of the Bank on 14 September 2016, effective on 20 September 2016.

The address of the CEO for the duties he discharges is: Piazza Salimbeni 3, Siena, Italy.

General Manager

The current general manager is Marco Morelli who was appointed by the board of directors on 14 September 2016. Marco Morelli has also been appointed as chief executive officer. The general manager is appointed by the board of directors which may also remove or suspend from his office.

The General Manager attends the meeting of the board of directors but has no right to vote on proposed resolutions at such meetings.

The general manager undertakes all operations and acts which are not expressly reserved for the board of directors or the executive committee. He oversees and is responsible for the overall administration and structure of the Bank and implements resolutions of the board of directors. He participates in meetings of the board of directors and proposes matters to the board of directors for approval, including matters relating to loans, the coordination of activities of the Group and the employees.

The address of the general manager for the duties he discharges is: Piazza Salimbeni 3, Siena, Italy.

Financial Reporting Officer

On 26 November 2016, the board of directors appointed Nicola Massimo Clarelli as financial reporting officer, pursuant to article 31 of the by-laws.

Managers with strategic responsibilities

The table below sets forth the names of the current management of the Bank with strategic responsibilities, together with their positions.

Name	Position	Date of birth
Marco Morelli	general manager and chief executive officer	08 December 1961
Angelo Barbarulo	deputy general manager	17 November 1954
Antonio Nucci	deputy general manager and chief commercial officer	13 June 1955
Giampiero Bergami	head of corporate	27 February 1968
Pierfrancesco Cocco	chief audit executive	07 June 1954
Eleonora Cola	head of retail	18 July 1965
Ilaria Dalla Riva	chief human capital officer	20 November 1970
Enrico Grazzini	chief operating officer	14 August 1954
Fabrizio Leandri	chief lending officer	21 April 1966
Francesco Renato Mele	chief financial officer	10 February 1969
Fausto Moreni	head of organization and operations	31 March 1971
Marco Palocci	head of external relations	02 December 1960
Riccardo Quagliana	head of group general counsel	04 April 1971
Andrea Rovellini	chief risk officer	15 February 1959
Lucia Savarese	head of non performing loan	30 March 1964
Emanuele Scarnati	head of performing loan	11 August 1965
Federico Vitto	head of wealth management	14 November 1968

The address of the managers with strategic responsibilities of the Bank for the duties they discharge is: Piazza Salimbeni 3, Siena, Italy

Board of Statutory Auditors

The board of statutory auditors is composed of three standing members and two alternate members. Statutory auditors are appointed by the ordinary shareholders' meeting for a three year term and may be re-elected. The shareholders' meeting also sets the remuneration of the statutory auditors for their entire term.

The board of statutory auditors is required to verify that the Bank complies with applicable law and its by-laws, respects the principles of correct administration, and maintains an adequate organisational structure, internal controls and administrative and accounting systems. The board of statutory auditors has a duty to shareholders to whom they report at the annual general shareholders' meeting approving the financial statements.

The members of the board of statutory auditors are required to meet at least once every 90 days and take part in meetings of the board of directors, the shareholders' meetings and meetings of the executive committee.

The board of statutory auditors was appointed by the ordinary shareholders' meeting of 16 April 2015 and such appointment will expire on the shareholders' meeting called to approve the 2017 financial statements.

The following table sets out the positions of members of administrative, management and supervisory bodies held by the current members of the Bank's board of statutory auditors:

Name	Title	Position held
Elena Cenderelli	chairman of the board of statutory auditors	-
Anna Girello	auditor	chairman of the board of statutory auditors of Delsanto S.p.A.
		alternate auditor of Ceretto Aziende Vitivinicole S.r.l.
		chairman of the board of statutory auditors of Fin Bal S.r.l.
		chairman of the board of statutory auditors of Finvezza S.r.l.
		chairman of the board of statutory auditors of Italgelatine S.r.l.
		chairman of the board of statutory auditors of Ondalba S.p.A.
		auditor of Sedamyl S.p.A.
		auditor of Magazzini Montello S.p.A.
		auditor of Oikos 2006 S.r.l.
		sole director of Green Gestioni e Servizi S.r.l.
		director of Getto Design S.r.l.
		director of Toscana Aereoporti S.p.A.
		administrator of Studio Girello S.s.
		auditor of Twin Set S.r.l.
Paolo Salvadori	auditor	chairman of the board of statutory auditors of AXA MPS Assicurazioni Vita S.p.A.
		chairman of the board of statutory auditors of AXA MPS Assicurazioni Danni S.p.A.
		chairman of the board of statutory auditors of Sevian S.r.l.
		auditor of AXA Italia Servizi S.c.p.a.
		chairman of the board of statutory auditors of Immobiliare Due Ponti S.p.A.
		chairman of the board of statutory auditors of MA Centro Inossidabili S.p.A.

Gabriella Chersicla	alternate auditor	chairman of the board of directors of Parmalat S.p.A.
		director of Maire Tecnimont S.p.A.
		auditor of RCS Media Group S.p.A.
		auditor of Snam Rete Gas S.p.A.
		auditor of Eprice S.p.A.
		auditor of Telecom Italia S.p.A.
Carmela Regina Silvestri	alternate auditor	alternate auditor of Amway S.p.A.
		liquidator of Arbatax S.p.A. in extraordinary administration procedure
		special commissioner of Elea S.p.A. in extraordinary administration procedure
		liquidator of Keller S.p.A. in extraordinary administration procedure
		special commissioner of PICFIC in extraordinary administration procedure
		chairman of the board of statutory auditors of Sansedoni S.p.A.
		chairman of the board of statutory auditors of Valorizzazioni Immobiliari S.p.A. in liquidation

Statutory Auditing

Pursuant to article 30 of the Bank's by-laws, the ordinary shareholders' meeting appointed, on 29 April 2011, EY S.p.A., as independent auditors for a nine-year period (2011-2019) pursuant to articles 13 and seq. of the Legislative Decree no. 39 of 27 January 2010 (the "**Decree 39**") and article 2409-bis of the Italian civil code.

The statutory audit shall be performed by an independent auditor meeting the requirements established by law.

Conflict of Interest

BMPS is an Italian bank with shares listed on regulated markets and as such deals with any conflicts of interest of the members of its administrative, management and supervisory body in accordance with the requirements of article 2391 ("*Directors' interests*") and article 2391-*bis* of the Italian Civil Code ("*Related party transactions*"), article 53, paragraph 4 ("*Regulatory supervision*") and article 136 ("*Obligations of bank corporate officers*") of the Italian Consolidated Banking Law and the regulatory provisions on related party transactions adopted by CONSOB with Resolution no. 17221 of 12 March 2010 ("*Regulation on Related Party transactions*") and by the Bank of Italy on 12 December 2011 ("*Circular 263/2006—Update no. 9 on risk and conflicts of interest with respect to affiliated parties*").

In the context of these requirements, the board of directors has adopted, on 12 November 2014, a global policy for transactions with related parties and affiliated parties and the obligations of bank representatives (the "**Global Policy**"), which set out in a single document the provisions related to the conflicts of interest for the Group, without prejudice to the provisions of the Italian Civil Code. The Global Policy was approved by the board of directors after receiving the prior favourable opinion of the related party transactions committee (consisting of independent directors) and the board of statutory auditors.

In particular, the Global Policy set out the principles and rules for the BMPS Group in order to control the risk arising from the potential conflict of interests with certain individuals which are close to the Bank's decision-making centres. The Global Policy provides for, *inter alia,* the establishment, composition and functioning of the related parties committee, the borders of the related parties and affiliated parties, the authorisation of

transactions with related parties and affiliated parties and the cases of exclusion from decision-making procedures with respect to such transactions.

In addition, having importance in this respect are certain provisions in the Bank's by-laws which require specific information flows in the case of interests held by members of the administrative, management and supervisory bodies which are designed to ensure the independence of directors and statutory auditors. Article 17 of BMPS's by-laws requires the board of directors to promptly report on a timely basis to the board of statutory auditors on any transactions in which its members have an interest, on their own behalf or on behalf of third parties, while the obligation still remains for each director to inform the other directors and the board of statutory auditors of any interest which they may have in a specific transaction of BMPS, on their own behalf or on behalf of third parties, as required by article 2391 of the Italian Civil Code. In addition to requiring compliance with the provisions of article 136 of the Consolidated Banking Act, article 21 of BMPS's by-laws expresses the obligation for the members of the board of directors and the executive committee to inform the board of directors and the board of statutory auditors as to any affairs in which they personally have an interest or which regards entities or companies of which they are directors, statutory auditors or employees, unless Group companies are concerned.

Article 15 of BMPS's by-laws states that the directors shall not hold positions as members of the board of directors, the management board or the supervisory board of competitor banks. Article 26 of BMPS's by-laws states that the members of the board of statutory auditors shall not hold other positions in other banks (not belonging to the Group or subject to joint control) and may only hold positions in control bodies in other Group companies or in companies in which BMPS holds, directly or indirectly, a strategic interest.

To the best of BMPS's knowledge and belief, as of the date of this Base Prospectus there are no conflicts involving the members of its administrative, management and supervisory bodies, current or potential, between their obligations towards the Bank and their private interests and/or their obligations towards third parties, other than those occurring within the context of specific resolutions adopted by BMPS in accordance with the mentioned article 2391 of the Italian Civil Code and article 136 of the Italian Consolidated Banking Law. Given the BMPS's business, the private interests that can occur relate mainly to transactions which entail financing and loans typical of the bank business.

The means by which the board of directors is appointed, as governed by BMPS's by-laws, ensures that directors fulfil the independence requirements. More specifically, pursuant to article 15, when the board of directors is appointed, each list filed by shareholders would have a number of candidates, specifically indicated, fulfilling the independence requirements established for the statutory auditors by the law and the additional independence requirements prescribed by the corporate governance code, not lower than two and at least equal to 1/3 of the candidates in the list. Pursuant to article 3 of the corporate governance code, the board of directors has the duty to assess the independence of its non-executive members on an annual basis. The assessment of the independence of the directors prescribed by the Consolidated Finance Act and the corporate governance code has been conducted during the meeting of 2 March 2017.

As prescribed by the corporate governance code, the supervisory provisions on the organization and corporate governance of banks issued by the Bank of Italy (as amended by the title IV, chapter 1 of the Circular no. 285 of 17 December 2013), the board of directors performs the self-assessments at least annually.

The main transactions concluded with related parties are described in the consolidated financial statements as at 31 December 2016 approved on 12 April 2017.

Main Shareholders as at the date of this Base Prospectus

Shareholders	**% share capital on overall share capital**
Italian Ministry of Economy and Finance	**68.247%**

Assicurazioni Generali S.p.A. (indirectly through subsidiaries)	**4.319%**
Banca Monte dei Paschi di Siena S.p.A.	**3.181%**

As at the date of this Base Prospectus, pursuant to article 93 of the Consolidated Finance Act the Issuer is controlled by the Italian Ministry of Economy and Finance, following the subscription of the share capital increase reserved to the MEF pursuant to the Decree of 23 December 2016, no. 237 and its related ministerial Decree adopted on 27 July 2017.

Furthermore, article 14, paragraph 7, of the Bank's by-laws states that, should a bank foundation during an ordinary shareholders' meeting - as ascertained by the chairman of the shareholders' meeting during the course of the meeting and immediately before each vote - be able to exercise, on the basis of the shares held by the shareholders attending the meeting, a majority vote, then the chairman of the meeting shall take note of such a case and shall proceed to the exclusion of the bank foundation's votes, up to a number of shares which are equal to the difference between the number of ordinary shares deposited by the such bank foundation and the overall number of ordinary shares deposited by the other shareholders who are present and have been admitted to the voting, plus one share.

TAXATION

Republic of Italy

The statements herein regarding taxation are based on the laws in force in Italy as of the date of this Base Prospectus and are subject to any changes in law occurring after such date, which changes could be made on a retroactive basis.

The following overview does not purport to be a comprehensive description of all the tax considerations which may be relevant to a decision to subscribe for, purchase, own or dispose of the Notes and does not purport to deal with the tax consequences applicable to all categories of investors, some of which (such as dealers in securities or commodities) may be subject to special rules. Prospective purchasers of the Notes are advised to consult their own tax advisers concerning the overall tax consequences of their ownership of the Notes.

Tax treatment of Notes

Legislative Decree No. 239 of 1 April 1996, as subsequently amended, ("**Decree 239**") provides for the applicable regime with respect to the tax treatment of interest, premium and other income (including the difference between the redemption amount and the issue price) from notes falling within the category of bonds (*obbligazioni*) or debentures similar to bonds (*titoli similari alle obbligazioni*) issued, *inter alia*, by Italian banks. For this purpose, bonds and debentures similar to bonds are securities that incorporate an unconditional obligation to pay, at redemption, an amount not lower than their nominal value and which do not grant the holder any direct or indirect right of participation to (or of control of) to management of the issuer.

The tax regime set forth by Decree 239 also applies to interest, premium and other income from regulatory capital financial instruments complying with EU and Italian regulatory principles, issued by, inter alia, Italian banks (other than shares and assimilated instruments), as set out by Article 2, paragraphs 22 and 22-bis, of Law Decree No. 138 of 13 August 2011, as converted with amendments by Law No. 148 of 14 September 2011 and as further amended and clarified by Law No. 147 of 27 December 2013.

Italian resident Noteholders

Where an Italian resident Noteholder is (a) an individual not engaged in an entrepreneurial activity to which the Notes are connected (unless he has opted for the application of the *risparmio gestito* regime – see under "Capital gains tax" below); (b) a non-commercial partnership; (c) a non-commercial private or public institution; or (d) an investor exempt from Italian corporate income taxation, interest, premium and other income relating to the Notes, are subject to a withholding tax, referred to as "*imposta sostitutiva*", levied at the rate of 26 per cent.. In the event that the Noteholders described under (a) and (c) above are engaged in an entrepreneurial activity to which the Notes are connected, the *imposta sostitutiva* applies as a provisional tax.

Where an Italian resident Noteholder is a company or similar commercial entity, or a permanent establishment in Italy of a foreign company to which the Notes are effectively connected, and the Notes are deposited with an authorised intermediary, interest, premium and other income from the Notes will not be subject to *imposta sostitutiva*, but must be included in the relevant Noteholder's income tax return and are therefore subject to general Italian corporate taxation (and, in certain circumstances, depending on the "status" of the Noteholder, also to the regional tax on productive activities ("**IRAP**")).

Under the current regime provided by Law Decree No. 351 of 25 September 2001 converted into law with amendments by Law No. 410 of 23 November 2001 ("**Decree 351**"), Law Decree No. 78 of 31 May 2010, converted into Law No. 122 of 30 July 2010 and Legislative Decree No. 44 of 4 March 2014, all as amended, payments of interest, premiums or other proceeds in respect of the Notes made to Italian resident real estate investment funds and Italian real estate SICAFs established pursuant to Article 37 of Legislative Decree No. 58 of 24 February 1998 or pursuant to Article 14-*bis* of Law No. 86 of 25 January 1994 ("**Real Estate Funds**"), are subject neither to *imposta sostitutiva* nor to any other income tax in the hands of a Real Estate

Fund, but subsequent distributions made in favour of unitholders or shareholders will be subject, in certain circumstances, to a withholding tax of 26 per cent.

If the investor is resident in Italy and is an open-ended or closed-ended investment fund, a SICAF (an investment company with fixed capital other than a real estate SICAFs) or a SICAV (an investment company with variable capital) established in Italy (the "**Fund**") and either (i) the Fund or (ii) its manager is subject to the supervision of a regulatory authority, and the relevant Notes are held by an authorised intermediary, interest, premium and other income accrued during the holding period on such Notes will not be subject to *imposta sostitutiva*, but must be included in the management results of the Fund. The Fund will not be subject to taxation on such results but a withholding tax of 26 per cent. will apply, in certain circumstances, to distributions made in favour of unitholders or shareholders (the "**Collective Investment Fund Tax**").

Where an Italian resident Noteholder is a pension fund (subject to the regime provided for by article 17 of the Legislative Decree No. 252 of 5 December 2005) (the "**Pension Fund**") and the Notes are deposited with an authorised intermediary, interest, premium and other income relating to the Notes and accrued during the holding period will not be subject to *imposta sostitutiva*, but must be included in the result of the relevant portfolio accrued at the end of the tax period, to be subject to a 20 per cent. substitute tax.

Subject to certain limitations and requirements (including a minimum holding period), Italian resident individuals not acting in connection with an entrepreneurial activity or social security entities pursuant to Legislative Decree No. 509 of 30 June 1994 and Legislative Decree No. 103 of 10 February 1996 may be exempt from any income taxation, including the *imposta sostitutiva*, on interest if the Notes are included in a long-term savings account (*piano di risparmio a lungo termine*) structured as collective investment undertaking that meets the requirements set forth in Article 1, paragraph 100-114 of Law No. 232 of 11 December 2016 ("**2017 Budget Law**") in which the above mentioned Italian resident individuals invest.

Pursuant to Decree 239, *imposta sostitutiva* is applied by banks, SIMs, fiduciary companies, SGRs, stockbrokers and other entities identified by a decree of the Ministry of Finance (each an "**Intermediary**").

An Intermediary must (a) be resident in Italy or be a permanent establishment in Italy of a non-Italian resident financial intermediary and (b) intervene, in any way, in the collection of interest or in the transfer of the Notes. For the purpose of the application of the *imposta sostitutiva*, a transfer of Notes includes any assignment or other act, either with or without consideration, which results in a change of the ownership of the relevant Notes or in a change of the Intermediary with which the Notes are deposited.

Where the Notes are not deposited with an Intermediary, the *imposta sostitutiva* is applied and withheld by any entity paying interest to a Noteholder.

Non-Italian resident Noteholders

Where the Noteholder is a non-Italian resident without a permanent establishment in Italy to which the Notes are connected, an exemption from the *imposta sostitutiva* applies provided that the non-Italian resident beneficial owner is either (a) resident, for tax purposes, in a country which allows for a satisfactory exchange of information with Italy as listed in the Italian Ministerial Decree of 4 September 1996, as amended by Ministerial Decree of 23 March 2017 and possibly further amended by future decrees issued pursuant to Article 11(4)(c) of Decree 239 (as amended by Legislative Decree No.147 of 14 September 2015) (the **White List**); or (b) an international body or entity set up in accordance with international agreements which have entered into force in Italy; or (c) a Central Bank or an entity which manages, *inter alia*, the official reserves of a foreign State; or (d) an institutional investor which is resident in a country which is included in the White List (or the New White List, once effective), even if it does not possess the status of taxpayer in its own country of residence.

In order to ensure gross payment, non-Italian resident Noteholders must be the beneficial owners of the payments of interest, premium or other income and (a) deposit, directly or indirectly, the Notes with a resident bank or SIM or a permanent establishment in Italy of a non-Italian resident bank or SIM or with a non-Italian

resident entity or company participating in a centralised securities management system which is in contact, via computer, with the Ministry of Economy and Finance and (b) file with the relevant depository, prior to or concurrently with the deposit of the Notes, a statement of the relevant Noteholder, which remains valid until withdrawn or revoked, in which the Noteholder declares to be eligible to benefit from the applicable exemption from *imposta sostitutiva*. Such statement, which is not requested for international bodies or entities set up in accordance with international agreements which have entered into force in Italy nor in case of foreign Central Banks or entities which manage, *inter alia*, the official reserves of a foreign State, must comply with the requirements set forth by Ministerial Decree of 12 December 2001, as subsequently amended.

The *imposta sostitutiva* will be applicable at the rate of 26 per cent. or, in any case, at the reduced rate provided for by the applicable double tax treaty, if any, to interest, premium and other income paid to Noteholders who are resident, for tax purposes, in countries not included in the White List (or the New White List, once effective).

Atypical securities

Interest payments relating to Notes that are not deemed to fall within the category of bonds (*obbligazioni*) or debentures similar to bonds (*titoli similari alle obbligazioni*) may be subject to a withholding tax, levied at the rate of 26 per cent.. For this purpose, debentures similar to bonds are securities that incorporate an unconditional obligation to pay, at maturity, an amount not lower than their nominal value.

Subject to certain limitations and requirements (including a minimum holding period), Italian resident individuals not engaged in an entrepreneurial activity or social security entities pursuant to Legislative Decree No. 509 of 30 June 1994 and Legislative Decree No. 103 of 10 February 1996 may be exempt from Italian withholding tax on proceeds received under Notes classifying as atypical securities, if the Notes are included in a long-term savings account (*piano di risparmio a lungo termine*) that meets the requirements set forth in Article 1(100-114) of Finance Act 2017.

Where the Noteholder is (a) an Italian individual engaged in an entrepreneurial activity to which the Notes are connected; (b) an Italian company or a similar Italian commercial entity; (c) a permanent establishment in Italy of a foreign entity; (d) an Italian commercial partnership; or (e) an Italian commercial private or public institution, such withholding tax is a provisional withholding tax. In all other cases, including when the Noteholder is a non-Italian resident, the withholding tax is a final withholding tax. For non-Italian resident Noteholders, the withholding tax rate may be reduced by any applicable tax treaty.

Capital gains tax

Any gain obtained from the sale or redemption of the Notes would be treated as part of the taxable income (and, in certain circumstances, depending on the "status" of the Noteholder, also as part of the net value of the production for IRAP purposes) if realised by an Italian company or a similar commercial entity (including the Italian permanent establishment of foreign entities to which the Notes are connected) or Italian resident individuals engaged in an entrepreneurial activity to which the Notes are connected.

Where an Italian resident Noteholder is (i) an individual holding the Notes not in connection with an entrepreneurial activity, (ii) a non-commercial partnership, (iii) a non-commercial private or public institution, any capital gain realised by such Noteholder from the sale or redemption of the Notes would be subject to an *imposta sostitutiva*, levied at the current rate of 26 per cent.. Noteholders may set off losses with gains.

Subject to certain limitations and requirements (including a minimum holding period), Italian resident individuals not engaged in an entrepreneurial activity or social security entities pursuant to Legislative Decree No. 509 of 30 June 1994 and Legislative Decree No. 103 of 10 February 1996 may be exempt from Italian capital gain taxes, including the *imposta sostitutiva*, on capital gains realised upon sale or redemption of the Notes, if the Notes are included in a long-term savings account (*piano di risparmio a lungo termine*) that meets the requirements set forth in Article 1(100-114) of Finance Act 2017.

In respect of the application of *imposta sostitutiva*, taxpayers may opt for one of the three regimes described below.

Under the tax declaration regime (*regime della dichiarazione*), which is the default regime for Italian resident individuals not engaged in an entrepreneurial activity to which the Notes are connected, the *imposta sostitutiva* on capital gains will be chargeable, on a cumulative basis, on all capital gains, net of any incurred capital loss, realised by the Italian resident individual Noteholder holding the Notes not in connection with an entrepreneurial activity pursuant to all sales or redemptions of the Notes carried out during any given tax year. Italian resident individuals holding the Notes not in connection with an entrepreneurial activity must indicate the overall capital gains realised in any tax year, net of any relevant incurred capital loss, in the annual tax return and pay *imposta sostitutiva* on such gains together with any balance income tax due for such year. Capital losses in excess of capital gains may be carried forward against capital gains realised in any of the four succeeding tax years. Pursuant to Law Decree No. 66 of 24 April 2014, as converted into law with amendments by Law No. 89 of 23 June 2014 ("**Decree 66**"), capital losses may be carried forward to be offset against capital gains of the same nature realised after 30 June 2014 for an overall amount of 76.92 per cent. of the capital losses realised from 1 January 2012 to 30 June 2014.

As an alternative to the tax declaration regime, Italian resident individual Noteholders holding the Notes not in connection with an entrepreneurial activity may elect to pay the *imposta sostitutiva* separately on capital gains realised on each sale or redemption of the Notes (the *risparmio amministrato* regime). Such separate taxation of capital gains is allowed subject to (a) the Notes being deposited with Italian banks, SIMs or certain authorised financial intermediaries and (b) an express election for the *risparmio amministrato* regime being timely made in writing by the relevant Noteholder. The depository is responsible for accounting for *imposta sostitutiva* in respect of capital gains realised on each sale or redemption of the Notes (as well as in respect of capital gains realised upon the revocation of its mandate), net of any incurred capital loss, and is required to pay the relevant amount to the Italian tax authorities on behalf of the taxpayer, deducting a corresponding amount from the proceeds to be credited to the Noteholder or using funds provided by the Noteholder for this purpose. Under the *risparmio amministrato* regime, where a sale or redemption of the Notes results in a capital loss, such loss may be deducted from capital gains subsequently realised, within the same securities management, in the same tax year or in the following tax years up to the fourth. Under the *risparmio amministrato* regime, the Noteholder is not required to declare the capital gains in the annual tax return. Pursuant to Decree No. 66, capital losses may be carried forward to be offset against capital gains of the same nature realised after 30 June 2014 for an overall amount of 76.92 per cent. of the capital losses realised from 1 January 2012 to 30 June 2014.

Any capital gains realised by Italian resident individuals holding the Notes not in connection with an entrepreneurial activity who have entrusted the management of their financial assets, including the Notes, to an authorised intermediary and have opted for the so-called "*risparmio gestito*" regime will be included in the computation of the annual increase in value of the managed assets accrued, even if not realised, at year end, subject to a 26 per cent. substitute tax, to be paid by the managing authorised intermediary. Under the *risparmio gestito* regime, any decrease in value of the managed assets accrued at year end may be carried forward against increase in value of the managed assets accrued in any of the four succeeding tax years. Under the *risparmio gestito* regime, the Noteholder is not required to declare the capital gains realised in the annual tax return. Pursuant to Decree No. 66, decreases in value may be carried forward to be offset against increases in value of the same nature realised after 30 June 2014 for an overall amount of: (i) 48.08 per cent. of the relevant decrease in value realised before 1 January 2012; (ii) 76.92 per cent. of the decrease in value realised from 1 January 2012 to 30 June 2014.

Subject to certain limitations and requirements (including a minimum holding period), Italian resident individuals not engaged in an entrepreneurial activity or social security entities pursuant to Legislative Decree No. 509 of 30 June 1994 and Legislative Decree No. 103 of 10 February 1996 may be exempt from Italian capital gain taxes, including the *imposta sostitutiva*, on capital gains realised upon sale or redemption of the Notes, if the Notes are included in a long-term individual savings account (*piano individuale di risparmio a*

lungo termine) structured as collective investment undertaking that meets the requirements set forth in Article 1(100-114) of 2017 Budget Law.

Any capital gains realised by a Noteholder who is an Italian Real Estate Fund will be subject neither to *imposta sostitutiva* nor to any other income tax at the level of the Real Estate Fund.

Any capital gains realised by a Noteholder which is a Fund will not be subject to *imposta sostitutiva*, but will be included in the result of the relevant portfolio. Such result will not be taxed with the Fund, but subsequent distributions in favour of unitholders of shareholders may be subject to the Collective Investment Fund Tax.

Any capital gains realised by a Noteholder who is a Pension Fund will be included in the result of the relevant portfolio accrued at the end of the tax period, to be subject to the 20 per cent. substitute tax. Subject to certain conditions (including minimum holding period requirement) and limitations, interest, premium and other income relating to the Notes may be excluded from the taxable base of the 20 per cent. substitute tax if the Notes are included in a long-term savings account (*piano di risparmio a lungo termine*) that meets the requirements set forth in Article 1 (100-114) of Finance Act 2017.

Capital gains realised by non-Italian-resident Noteholders, not having a permanent establishment in Italy to which the Notes are connected, from the sale or redemption of Notes traded on regulated markets are neither subject to the *imposta sostitutiva* nor to any other Italian income tax.

Capital gains realised by non-Italian resident Noteholders from the sale or redemption of Notes not traded on regulated markets are not subject to the *imposta sostitutiva*, provided that the effective beneficiary: (a) is resident in a country included in the White List; or (b) is an international entity or body set up in accordance with international agreements which have entered into force in Italy; or (c) is a Central Bank or an entity which manages, *inter alia*, the official reserves of a foreign State; or (d) is an institutional investor which is resident in a country included in the White List, even if it does not possess the status of taxpayer in its own country of residence.

If none of the conditions above is met, capital gains realised by non-Italian resident Noteholders from the sale or redemption of Notes not traded on regulated markets are subject to the *imposta sostitutiva* at the current rate of 26 per cent.

In any event, non-Italian resident individuals or entities without a permanent establishment in Italy to which the Notes are connected that may benefit from a double taxation treaty with Italy providing that capital gains realised upon the sale or redemption of Notes are to be taxed only in the country of tax residence of the recipient, will not be subject to *imposta sostitutiva* in Italy on any capital gains realised upon the sale or redemption of the Notes.

Inheritance and gift taxes

Pursuant to Law Decree No. 262 of 3 October 2006, converted into Law No. 286 of 24 November 2006, as subsequently amended, the transfers of any valuable asset (including shares, notes or other securities) as a result of death or donation are taxed as follows:

(i) transfers in favour of spouses and direct descendants or direct ancestors are subject to an inheritance and gift tax applied at a rate of 4 per cent. on the value of the inheritance or the gift exceeding Euro 1 million for each beneficiary;

(ii) transfers in favour of relatives to the fourth degree or relatives-in-law to the third degree are subject to an inheritance and gift tax at a rate of 6 per cent. on the entire value of the inheritance or the gift. Transfers in favour of brothers/sisters are subject to the 6 per cent. inheritance and gift tax on the value of the inheritance or the gift exceeding €100,000 for each beneficiary; and

(iii) any other transfer is, in principle, subject to an inheritance and gift tax applied at a rate of 8 per cent. on the entire value of the inheritance or the gift.

If the transfer is made in favour of persons with severe disabilities, the tax is levied at the rate mentioned above in (i), (ii) and (iii) on the value exceeding, for each beneficiary, €1,500,000.

Transfer tax

Following the repeal of the Italian transfer tax, contracts relating to the transfer of securities are subject to the following registration tax: (i) public deeds and notarised deeds are subject to fixed registration tax at a rate of €200; (ii) private deeds are subject to registration tax only in the case of voluntary registration.

Tax Monitoring

According to the Law Decree No. 167 of 28 June 1990, converted with amendments into Law No. 227 of 4 August 1990, as amended from time to time, individuals, non-profit entities and certain partnerships (*società semplici* or similar partnerships in accordance with Article 5 of Presidential Decree No. 917 of 22 December 1986) resident in Italy for tax purposes, under certain conditions, are required to report for tax monitoring purposes in their yearly income tax return the amount of investments (including the Notes) directly or indirectly held abroad. Such obligation is not provided if, inter alia, each of the overall value of the foreign investments which are only composed by deposits and/or bank accounts when their aggregate value never exceeds a Euro 15,000 threshold throughout the year.

The requirement applies also where the persons above, being not the direct holders of the financial instruments, are the actual owners ("*titolari effettivi*") of the financial instruments in accordance with Article 1(2)(u) and the Technical Annex of the Decree No. 231 of 21 November 2007.

Furthermore, the above reporting requirement is not required to comply with respect to Notes deposited for management or administration with qualified Italian financial intermediaries, with respect to contracts entered into through their intervention, upon condition that the items of income derived from the Notes have been subject to tax by the same intermediaries.

Stamp duty

Pursuant to Article 19(1) of Decree No. 201 of 6 December 2011 ("**Decree 201**"), a proportional stamp duty applies on an annual basis to the periodic reporting communications sent by financial intermediaries to their clients for the Notes deposited therewith. The stamp duty applies at a rate of 0.2 per cent. and, as of 2014, it cannot exceed €14,000, for taxpayers different from individuals. This stamp duty is determined on the basis of the market value or – if no market value figure is available – the nominal value or redemption amount of the Notes held.

Based on the wording of the law and the implementing decree issued by the Italian Ministry of Economy on 24 May 2012, the stamp duty applies to any investor who is a client (as defined in the regulations issued by the Bank of Italy on 20 June 2012) of an entity that exercises in any form a banking, financial or insurance activity within the Italian territory. The communication is deemed to be sent to the customers at least once a year, even for instruments for which it is not mandatory.

Wealth Tax on securities deposited abroad

Pursuant to Article 19(18) of Decree 201, Italian resident individuals holding the Notes outside the Italian territory are required to pay an additional tax at a rate of 0.2 per cent..

This tax is calculated on the market value of the Notes at the end of the relevant year or – if no market value figure is available – the nominal value or the redemption value of such financial assets held outside the Italian

territory. Taxpayers are entitled to an Italian tax credit equivalent to the amount of wealth taxes paid in the State where the financial assets are held (up to an amount equal to the Italian wealth tax due).

Luxembourg Taxation

The following overview is of a general nature and is based on the laws presently in force in Luxembourg, though it is not intended to be, nor should it be construed to be, legal or tax advice. The information contained within this section is limited to Luxembourg withholding tax issues, and prospective investors in the Notes should therefore consult their own professional advisers as to the effects of state, local or foreign laws, including Luxembourg tax law, to which they may be subject.

Please be aware that the residence concept used under the respective headings below applies for Luxembourg income tax assessment purposes only. Any reference in the present section to a withholding tax or a tax of a similar nature refers to Luxembourg tax law and/or concepts only.

Withholding Tax

(i) Non-resident holders of Notes

Under Luxembourg general tax laws currently in force, there is no withholding tax on payments of principal, premium or interest made to non-resident holders of Notes, nor on accrued but unpaid interest in respect of the Notes, nor is any Luxembourg withholding tax payable upon redemption or repurchase of the Notes held by non-resident holders of Notes.

(ii) Resident holders of Notes

Under Luxembourg general tax laws currently in force and subject to the law of 23 December 2005, as amended (the "**Relibi Law**"), there is no withholding tax on payments of principal, premium or interest made to Luxembourg resident holders of Notes, nor on accrued but unpaid interest in respect of Notes, nor is any Luxembourg withholding tax payable upon redemption or repurchase of Notes held by Luxembourg resident holders of Notes.

Under the Relibi Law payments of interest or similar income made or ascribed by a paying agent established in Luxembourg to an individual beneficial owner who is a resident of Luxembourg will be subject to a withholding tax of 20 per cent. Such withholding tax will be in full discharge of income tax if the beneficial owner is an individual acting in the course of the management of his/her private wealth. Responsibility for the withholding of the tax will be assumed by the Luxembourg paying agent. Payments of interest under the Notes coming within the scope of the Law will be subject to a withholding tax at a rate of 20 per cent.

The proposed European Union financial transactions tax (FTT)

On 14 February 2014, the European Commission published a proposal (the "**Commission's Proposal**") for a Directive for a common EU FTT in Belgium, Germany, Estonia, Greece, Spain, France, Italy, Austria, Portugal, Slovenia and Slovakia (the "**participating Member States**"). However, Estonia has since stated that it will not participate.

The Commission's Proposal has very broad scope and could, if introduced, apply to certain dealings in the Notes (including secondary market transactions) in certain circumstances. The issuance and subscription of the Notes should, however, be exempt.

Under the Commission's Proposal the FTT could apply in certain circumstances to persons both within and outside of the participating Member States. Generally, it would apply to certain dealings in the Notes where at least one party is a financial institution, and at least one party is established in a participating Member State. A financial institution may be, or be deemed to be, "established" in a participating Member State in a broad

range of circumstances, including (a) by transacting with a person established in a participating Member State or (b) where the financial instrument which is subject to the dealings is issued in a participating Member State.

However, the FTT proposal remains subject to negotiation between participating Member States. It may therefore be altered prior to any implementation, the timing of which remains unclear. Additional EU Member States may decide to participate.

Prospective holders of the Notes are advised to seek their own professional advice in relation to the FTT.

Foreign Account Tax Compliance Act

Pursuant to certain provisions of the U.S. Internal Revenue Code of 1986, commonly known as FATCA, a "**foreign financial institution**" (as defined by FATCA) may be required to withhold on certain payments it makes ("**foreign passthru payments**") to persons that fail to meet certain certification, reporting or related requirements. The Issuer is a foreign financial institution for these purposes. A number of jurisdictions (including the Republic of Italy have entered into, or have agreed in substance to, intergovernmental agreements with the United States to implement FATCA ("**IGAs**"), which modify the way in which FATCA applies in their jurisdictions. Under the provisions of IGAs as currently in effect, a foreign financial institution in an IGA jurisdiction would generally not be required to withhold under FATCA or an IGA from payments that it makes. Certain aspects of the application of the FATCA provisions and IGAs to instruments such as Notes, including whether withholding would ever be required pursuant to FATCA or an IGA with respect to payments on instruments such as Notes, are uncertain and may be subject to change. Even if withholding would be required pursuant to FATCA or an IGA with respect to payments on instruments such as Notes, such withholding would not apply prior to 1 January 2019 and Notes characterised as debt (or which are not otherwise characterised as equity and have a fixed term) for U.S. federal tax purpose that are issued on or prior to the date that is six months after the date on which final regulations defining foreign passthru payments are filed with the U.S. Federal Register generally would be grandfathered for purposes of FATCA withholding unless materially modified after such date. However, if additional Notes (as described under "*Terms and Conditions—Further Issues*") that are not distinguishable from previously issued Notes are issued after the expiration of the grandfathering period and are subject to withholding under FATCA, then withholding agents may treat all Notes, including the Notes offered prior to the expiration of the grandfathering period, as subject to withholding under FATCA. Holders should consult their own tax advisers regarding how these rules may apply to their investment in Notes.

SUBSCRIPTION AND SALE

The Dealers have, in a Programme Agreement (such Programme Agreement as modified and/or supplemented and/or restated from time to time, the "**Programme Agreement**") dated 15 December 2017, agreed with the Issuer a basis upon which they or any of them may from time to time agree to purchase Notes. Any such agreement will extend to those matters stated under "Form of the Notes" and "Terms and Conditions of the Notes". The Programme Agreement provides that the obligations of the Dealers to subscribe for Notes may be subject to certain conditions precedent, including (among other things) receipt of legal opinions from counsel. In the Programme Agreement, the Issuer has agreed to reimburse the Dealers for certain of their expenses in connection with the establishment of the Programme and the issue of Notes under the Programme and to indemnify the Dealers against certain liabilities incurred by them in connection therewith.

United States

The Notes have not been and will not be registered under the Securities Act, or with any securities regulatory authority of any state of other jurisdiction of the United States, and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except in certain transactions exempt from the registration requirements of the Securities Act. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act.

The Notes are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to a United States person, except in certain transactions permitted by U.S. Treasury regulations. Terms used in this paragraph have the meanings given to them by the U.S. Internal Revenue Code of 1986 and Treasury regulations promulgated thereunder. The Form of Final Terms (or Pricing Supplement, in the case of Exempt Notes) will identify whether TEFRA C rules or TEFRA D rules apply or whether TEFRA is not applicable.

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it will not offer, sell or deliver Notes (i) as part of their distribution at any time or (ii) otherwise until 40 days after the completion of the distribution, as determined and certified by the relevant Dealer or, in the case of an issue of Notes on a syndicated basis, the relevant lead manager, of all Notes of the Tranche of which such Notes are a part, within the United States or to, or for the account or benefit of, U.S. persons. Each Dealer has further agreed, and each further Dealer appointed under the Programme will be required to agree, that it will send to each dealer to which it sells any Notes during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the Notes within the United States or to, or for the account or benefit of, U.S. persons. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act.

Until 40 days after the commencement of the offering of any Series of Notes, an offer or sale of such Notes within the United States by any dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with an available exemption from registration under the Securities Act.

Prohibition of sales to EEA Retail Investors

From 1 January 2018, unless the Final Terms in respect of any Notes (or Pricing Supplement, in the case of Exempt Notes) specifies "Prohibition of Sales to EEA Retail Investors" as "Not Applicable", each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has not offered, sold or otherwise made available and will not offer, sell or otherwise make available any Notes which are the subject of the offering contemplated by the Base Prospectus as completed by the Final Terms (or Pricing Supplement, as the case may be) in relation thereto to any retail investor in the European Economic Area. For the purposes of this provision:

(a) the expression "**retail investor**" means a person who is one (or more) of the following:

(i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended, "**MiFID II**"); or

(ii) a customer within the meaning of Directive 2002/92/EC (as amended, the "**Insurance Mediation Directive**"), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or

(iii) not a qualified investor as defined in Directive 2003/71/EC (as amended, the "**Prospectus Directive**"); and

(b) the expression an "**offer**" includes the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe the Notes.

Prior to 1 January 2018, and from that date if the Final Terms in respect of any Notes (or Pricing Supplement, in the case of Exempt Notes) specifies "Prohibition of Sales to EEA Retail Investors" as "Not Applicable", in relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a "**Relevant Member State**"), each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the "**Relevant Implementation Date**") it has not made and will not make an offer of Notes which are the subject of the offering contemplated by this Base Prospectus as completed by the final terms in relation thereto to the public in that Relevant Member State, except that it may, with effect from and including the Relevant Implementation Date, make an offer of such Notes to the public in that Relevant Member State:

(a) at any time to any legal entity which is a qualified investor as defined in the Prospectus Directive;

(b) at any time to fewer than 150, natural or legal persons (other than qualified investors as defined in the Prospectus Directive), subject to obtaining the prior consent of the relevant Dealer or Dealers nominated by the Issuer for any such offer; or

(c) at any time in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of Notes referred to in (a) to (c) above shall require the Issuer or any Dealer to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive.

For the purposes of this provision:

(a) the expression an "offer of Notes to the public" in relation to any Notes in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe the Notes, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State; and

(b) the expression "**Prospectus Directive**" means Directive 2003/71/EC (as amended, including by Directive 2010/73/EU), and includes any relevant implementing measure in the Relevant Member State.

United Kingdom

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that:

(i) in relation to any Notes which have a maturity of less than one year, (a) it is a person whose ordinary activities involve it in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of its business and (b) it has not offered or sold and will not offer or sell any Notes other than to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or as agent) for the purposes of their businesses or who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses, where the issue of the Notes would otherwise constitute a contravention of section 19 of the FSMA by the Issuer;

(ii) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the Financial Services and Markets Act 2000 (the "**FSMA**")) received by it in connection with the issue or sale of any Notes in circumstances in which Section 21(1) of the FSMA would not, if it was not an authorised person, apply to the Issuer; and

(iii) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any Notes in, from or otherwise involving the United Kingdom.

Japan

The Notes have not been and will not be registered under the Financial Instruments and Exchange Act of Japan (Act No. 25 of 1948, as amended, the "**FIEA**") and each Dealer has represented and agreed and each further Dealer appointed under the Programme will be required to represent and agree that it will not offer or sell any Notes, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan (as defined under Item 5, Paragraph 1, Article 6 of the Foreign Exchange and Foreign Trade Act (Act No. 228 of 1949, as amended), or to others for re-offering or resale, directly or indirectly, in Japan or to, or for the benefit of, a resident of Japan except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the FIEA and any other applicable laws, regulations and ministerial guidelines of Japan.

Republic of Italy

The offering of the Notes has not been registered pursuant to Italian securities legislation and, accordingly, each Dealer has agreed, and each further Dealer appointed under the Programme will be required to agree, that no Notes may be offered, sold or delivered, nor may copies of the Base Prospectus or of any other offering material relating to the Notes be distributed in the Republic of Italy, except:

(i) to qualified investors (*investitori qualificati*), as defined pursuant to Article 100 of the Consolidated Finance Act and Article 34-*ter*, first paragraph, letter b) of CONSOB Regulation No. 11971 of 14 May 1999, as amended from time to time ("**Regulation No. 11971**"); or

(ii) in other circumstances which are exempted from the rules on public offerings pursuant to Article 100 of the Consolidated Finance Act and Article 34-*ter*, of Regulation No. 11971.

Any offer, sale or delivery of the Notes or distribution of copies of the Base Prospectus or any other document relating to the Notes in the Republic of Italy under (i) or (ii) above must:

(a) be made by an investment firm, bank or financial intermediary permitted to conduct such activities in the Republic of Italy in accordance with the Consolidated Finance Act, CONSOB Regulation No. 16190 of 29 October 2007 (as amended from time to time) and the Italian Consolidated Banking Act; and

(b) comply with any other applicable laws and regulations or requirement imposed by CONSOB, the Bank of Italy (including, the reporting requirements, where applicable, pursuant to Article 129 of the Italian Consolidated Banking Act and the implementing guidelines of the Bank of Italy, as amended from time to time) and/or any other Italian authority.

General

Each Dealer has agreed and each further Dealer appointed under the Programme will be required to agree that it will comply, to the best of its knowledge and belief, with all applicable securities laws and regulations in force in any jurisdiction in which it purchases, offers, sells or delivers Notes or possesses or distributes this Base Prospectus and will obtain any consent, approval or permission required by it for the purchase, offer, sale or delivery by it of Notes under the laws and regulations in force in any jurisdiction to which it is subject or in which it makes such purchases, offers, sales or deliveries and none of the Issuer nor any of the other Dealers shall have any responsibility therefor.

None of the Issuer and any of the Dealers represents that Notes may at any time lawfully be sold in compliance with any applicable registration or other requirements in any jurisdiction, or pursuant to any exemption available thereunder, or assumes any responsibility for facilitating any such sale.

GENERAL INFORMATION

Authorisation

The establishment of the Programme and the issue of Notes were duly authorised by a resolution of the Board of Directors of BMPS dated 18 November 1999 and the updating of the Programme has been duly authorised by resolution of the Board of Directors of the Bank held on 5 October 2017.

Approval, listing and admission to trading of Notes

Application for approval has been made to the CSSF to approve this document as a base prospectus and application has been made to the Luxembourg Stock Exchange for Notes (other than Exempt Notes) issued under the Programme to be admitted to trading on the Regulated Market on the Luxembourg Stock Exchange's regulated market and to be listed on the Official List of the Luxembourg Stock Exchange. The Luxembourg Stock Exchange's regulated market is a regulated market for the purposes of the Markets in Financial Instruments Directive (Directive 2004/39/EC).

Documents Available

For the period of 12 months following the date of publication of this Base Prospectus, copies of the following documents will, when published, be available free of charge from the registered office of the Issuer and from the specified office of the Paying Agent for the time being in Luxembourg:

(i) the constitutional documents (with an English translation thereof) of BMPS;

(ii) the consolidated and non-consolidated audited financial statements of BMPS in respect of the financial years ended 31 December 2016 and 31 December 2015 (with an English translation thereof) with the audit reports prepared in connection therewith. BMPS currently prepares audited consolidated and non-consolidated accounts on an annual basis;

(iii) the most recently published annual report of BMPS and the most recently published consolidated and non-consolidated annual (audited) and semi-annual and quarterly (unaudited) (if any) financial statements of BMPS (with an English translation thereof) in each case together with any audit or review reports prepared in connection therewith, if any. BMPS currently prepares unaudited consolidated and non-consolidated interim accounts on a semi-annual basis and unaudited consolidated interim accounts on a quarterly basis;

(iv) the Agency Agreement, the Deed of Covenant and the forms of the Global Notes, the Notes in definitive form, the Receipts, the Coupons and the Talons;

(v) a copy of this Base Prospectus;

(vi) any future base prospectuses, prospectuses, information memoranda and supplements, Final Terms and Pricing Supplements (in the case of Exempt Notes) (save that Pricing Supplements will only be available for inspection by a holder of such Note and such holder must produce evidence satisfactory to the Issuer and the relevant Paying Agent as to its holding of Notes and identity) to this Base Prospectus and any other documents incorporated herein or therein by reference; and

(vii) in the case of each issue of Notes admitted to trading on the Regulated Market of the Luxembourg Stock Exchange subscribed pursuant to a subscription agreement, the subscription agreement (or equivalent document).

Clearing Systems

The Notes have been accepted for clearance through Euroclear and Clearstream, Luxembourg (which are the entities in charge of keeping the records). The appropriate Common Code and ISIN for each Tranche of Notes allocated by Euroclear and Clearstream, Luxembourg will be specified in the Form of Final Terms (or Pricing Supplement, in the case of Exempt Notes). If the Notes are to clear through an additional or alternative clearing system the appropriate information will be specified in the Form of Final Terms or Pricing Supplement.

The address of Euroclear is Euroclear Bank SA/NV, 1 Boulevard du Roi Albert II, B-1210 Brussels and the address of Clearstream, Luxembourg is Clearstream Banking, 42 Avenue JF Kennedy, L-1855 Luxembourg.

Condition for determining price

The price and amount of Notes to be issued under the Programme will be determined by the Issuer and the relevant Dealer at the time of issue in accordance with prevailing market conditions.

Significant Change or Material Adverse Change

The Restructuring Plan provides for, *inter alia*, certain actions to be carried out by the Bank and the Group for the purpose of achieving the objectives of such plan and returning to a long term profitability, including actions for the cost reduction such as the disposal of certain assets and the reduction of the perimeter of the branches. For more details please see (i) "*Risks associated with the failed realisation of the Restructuring Plan*" in the risk factors section and (ii) the "Banca Monte dei Paschi di Siena S.p.A." section, paragraph "Major Events – Recent Developments – 2017 – Restructuring Plan 2017 – 2021".

Save as set out above, there has been no significant change in the financial or trading position of BMPS or the Group since 30 September 2017.

Material Adverse Change

On 7 November 2017 the Issuer's Board of Directors has approved the Interim Financial Statements as at 30 September 2017.

In relation to the deviations of the main economic and financial variables as at 30 September 2017, it should be noted that the primary revenues level (net interest income and net fees) are lower than the expected (-3 per cent.) recording a further extended deviation of 2 per cent. if compared to the dynamic recorded until August. In particular, the reduction of the primary revenues may be connected to the slowdown in fees income, more accentuated in September, being affected by the low demand for loans, by the seasonality of asset management income and by the assignment of the "merchant acquiring" business (completed on 30 June 2017). Operating costs highlight values within the programmed levels. With reference to capital aggregates, the trends already outlined in the period July-August are confirmed in September; in particular direct commercial funding continue to grow higher than expected, especially during the third quarter of 2017 (up by 8 per cent. in the third quarter); indirect funding is below forecasts (-2 per cent. in the third quarter); commercial loans recorded a downward trend higher than programmed levels (-3 per cent. during the third quarter). As at 30 September 2017, the dynamics observed upon the same aggregates and, expressed, therefore, in terms of average progressive balances, shows that direct commercial funding is higher than the expected (up by 5 per cent), with average progressive rates referred to the funding's costs below about 5 basis points compared to the scheduled level; indirect funding is moderately lower than the expected (-1 per cent.); commercial loans are slightly lower than the expected (-1 per cent.) with positive average progressive rates about 5 basis point lower than planned. The Issuer believes that the existing risk related to the low demand for loans may affect the realisation of the specific goals for 2017 linked to credit activity and, consequently, the realisation of the economic and capital goals for 2017. However, should such an event occur, the Issuer does not believe that it may negatively affect the compliance with the commitments as set out in the Restructuring Plan in the medium-term.

Save as set out above, the Issuer declares that, there has been no material adverse change in the prospects of the Issuer since 31 December 2016, being the date of the latest annual audited financial statements.

Litigation

Save as disclosed in the "Banca Monte dei Paschi di Siena S.p.A." section, paragraph 9 (*Legal Proceedings*), neither BMPS nor any other member of the Group is or has been involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which BMPS is aware) in the 12 months preceding the date of this document which may have or have in such period had a significant effect on the financial position or profitability of BMPS or the Group.

Auditors

EY S.p.A., independent registered public accounting firm and a member of *Assirevi Associazione Italiana Revisori Contabili*, the Italian Auditors Association, has audited the Issuer's consolidated financial statements, without qualification, in accordance with IFRS, for the financial year ended on 31 December 2016.

EY S.p.A., independent registered public accounting firm and a member of *Assirevi Associazione Italiana Revisori Contabili*, the Italian Auditors Association, has audited the Issuer's consolidated financial statements, without qualification, in accordance with IFRS, for the financial year ended on 31 December 2015.

Dealers Transacting with the Issuer

Certain of the Dealers and their affiliates, including parent companies, have engaged, and may in the future engage, in investment banking and/or commercial banking transactions (including the provision of loan facilities) and other related transactions with, and may perform services for the Issuer and its affiliates in the ordinary course of business.

In addition, in the ordinary course of their business activities, the Dealers and their affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers. Such investments and securities activities may involve securities and/or instruments of the Issuer or Issuer's affiliates. If any of the Dealers or their affiliates has a lending relationship with the Issuer, certain of the Dealers or their affiliates routinely or may hedge their credit exposure to the Issuer consistent with their customary risk management policies. Typically, such Dealers and their affiliates would hedge such exposure by entering into transactions which consist of either the purchase of credit default swaps or the creation of short positions in securities, including potentially the Notes issued under the Programme. Any such short positions could adversely affect future trading prices of Notes issued under the Programme. The Dealers and their affiliates may also make investment recommendations and/or publish or express independent research views in respect of such securities or financial instruments and may hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments.

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