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

(incorporated as a joint stock company (società per azioni) in the Republic of Italy)

€20,000,000,000 Covered Bond Programme
unconditionally and irrevocably guaranteed as to payments of interest and principal by MPS Covered Bond S.r.l.

(incorporated as a limited liability company (società a responsabilità limitata) in the Republic of Italy)

Except where specified otherwise, capitalised words and expressions in this Prospectus have the meaning given to them in the section entitled "*Glossary*".

Under this €20,000,000,000 covered bond programme (the "**Programme**"), Banca Monte dei Paschi di Siena S.p.A. ("**BMPS**" or the "**Issuer**" or the "**Bank**") may from time to time issue covered bonds (*Obbligazioni Bancarie Garantite*) (the "**Covered Bonds**") denominated in any currency agreed between the Issuer and the relevant Dealer(s). The maximum aggregate nominal amount of all Covered Bonds from time to time outstanding under the Programme will not exceed €20,000,000,000 (or its equivalent in other currencies calculated as described herein). The Covered Bonds constitute direct, unconditional, unsecured and unsubordinated obligations of the Issuer and will rank *pari passu* without preference among themselves and (save for any applicable statutory provisions) at least equally with all other present and future unsecured and unsubordinated obligations of the Issuer from time to time outstanding. In the event of a compulsory winding-up of the Issuer, any funds realised and payable to the Bondholders will be collected by the Guarantor on their behalf. MPS Covered Bond S.r.l. (the "**Guarantor**") has guaranteed payments of interest and principal under the Covered Bonds pursuant to a guarantee (the "**Guarantee**") which is collateralised by a pool of assets (the "**Cover Pool**") made up of Residential Mortgage Loans and Asset-Backed Securities assigned and to be assigned to the Guarantor by the Principal Seller and the Additional Seller(s), and of other Eligible Assets and Top-Up Assets. Recourse against the Guarantor under the Guarantee is limited to the Cover Pool.

This Prospectus has been approved as a base prospectus issued in compliance with the Prospectus Directive 2003/71/EC (the "**Prospectus Directive**") by the *Commission de Surveillance du Secteur Financier* (the "**CSSF**"), which is the competent authority in the Grand Duchy of Luxembourg for the purposes of the Prospectus Directive. In accordance with article 7.7 of the Prospectus Law, the CSSF assumes no responsibility as to the economic and financial opportuneness of any transactions under the Programme or the quality or solvency of the Issuer. Application has been made for Covered Bonds to be admitted during the period of 12 months from the date of this Prospectus to listing on the official list and trading on the regulated market of the Luxembourg Stock Exchange, which is a regulated market for the purposes of Markets in Financial Instruments Directive 2014/65/UE (*MiFID II*) as subsequently amended. The Programme also permits Covered Bonds to be issued on the basis that (i) they will be admitted to listing, trading and/or quotation by such other or further competent authorities, stock exchanges and/or quotation systems as may be agreed with the Issuer or (ii) they will not be admitted to listing, trading and/or quotation by any competent authority, stock exchange and/or quotation system.

Interest amounts payable under the Covered Bonds may be calculated by reference to EURIBOR, which is provided by the European Money Markets Institute ("**EMMI**") and to LIBOR, which is provided by ICE Benchmark Administration Limited ("**ICE**"), in each case as specified in the relevant Final Terms. At the date of this Prospectus, ICE is authorised as a benchmark administrator, and included on, whereas EMMI is not included on, the register of administrators and benchmarks established and maintained by the European Securities and Markets Authority ("**ESMA**") pursuant to article 36 of Regulation (EU) No. 2016/1011 (the "**Benchmarks Regulation**"). As far as the Issuer is aware, the transitional provisions in article 51 of the Benchmarks Regulation apply, such that EMMI is not currently required to obtain authorisation or registration (or, if located outside the European Union, recognition, endorsement or equivalence).

An investment in Covered Bonds issued under the Programme involves certain risks. See "Risk Factors" for a discussion of certain factors to be considered in connection with an investment in the Covered Bonds and the section entitled "*Banca Monte dei Paschi di Siena S.p.A.*".

From their relevant issue dates, the Covered Bonds will be issued in bearer and dematerialised form or in any other form as set out in the relevant Final Terms. The Covered Bonds issued in bearer and dematerialised form will be held on behalf of their ultimate owners by Monte Titoli S.p.A. ("**Monte Titoli**") for the account of the relevant Monte Titoli account holders. Monte Titoli will also act as depository for Euroclear Bank S.A./N.V. ("**Euroclear**") and Clearstream Banking, *société anonyme* ("**Clearstream**"). The Covered Bonds issued in bearer and dematerialised form will at all times be evidenced by book-entries in accordance with the provisions of the Financial Laws Consolidation Act and with the joint regulation of the Commissione Nazionale per le Società e la Borsa ("**CONSOB**") and the Bank of Italy dated 13 August 2018 and published in the Official Gazette No. 201 of 30 August 2018, as subsequently amended and supplemented. No physical document of title will be issued in respect of the Covered Bonds issued in bearer and dematerialised form.

The Covered Bonds of each Series or Tranche will be subject to mandatory and/or optional redemption in whole or in part in certain circumstances (as set out in Condition 9 (*Redemption and Purchase*)). Unless previously redeemed in full in accordance with the Conditions and the relevant Final Terms, the Covered Bonds of each Series or Tranche will be redeemed at their Final Redemption Amount on the relevant Maturity Date (or, as applicable, the Extension Determination Date), **provided that** if:

(i) a Guarantee Enforcement Notice has been served on the Issuer and the Guarantor as a result of the Issuer having failed to pay, in whole or in part, the Guaranteed Amounts on the Maturity Date for such Series of Covered Bonds and, on the relevant Extension Determination Date, the Guarantor has insufficient funds to pay, in accordance with the Guarantee Priority of Payments, the Guaranteed Amounts in respect of such Series of Covered Bonds; or

(ii) a Guarantee Enforcement Notice has been served on the Issuer and the Guarantor following the occurrence of an Issuer Event of Default (other than the Issuer Event of Default referred to in paragraph (i) above) and, on the Maturity Date for such Series of Covered Bonds, the Guarantor has insufficient funds to pay, in accordance with the Guarantee Priority of Payments, the Guaranteed Amounts in respect of such Series of Covered Bonds,

then the relevant Series or Tranche of Covered Bonds shall become a Pass Through Series.

Investors should also consider that if, on any Test Calculation Date following the service of a Guarantee Enforcement Notice (and, in case of a Guarantee Enforcement Notice delivered as a result of an Article 74 Event, prior to the service of an Article 74 Event Cure Notice), the Calculation Agent notifies, through the Test Performance Report, the Issuer, the Sellers, any Additional Seller and the Guarantor that the Amortisation Test is not met, then all Series of Covered Bonds shall become Pass Through Series.

As at the date of this Prospectus, payments of interest and other proceeds in respect of the Covered Bonds may be subject to withholding or deduction for or on account of Italian substitute tax, in accordance with Italian Legislative Decree No. 239 of 1 April 1996 (the "**Decree No. 239**"), as amended and supplemented from time to time, and any related regulations. Upon the occurrence of any withholding or deduction for or on account of tax from any payments under any Series or Tranche of Covered Bonds, neither the Issuer nor any other person shall have any obligation to pay any additional amount(s) to any holder of Covered Bonds any Series or Tranche. For further details see the section entitled "*Taxation*".

Each Series or Tranche of Covered Bonds may or may not be assigned a rating by one or more Rating Agencies.

Each Series or Tranche of Covered Bonds issued under the Programme, if rated, is expected to be assigned, unless otherwise stated in the applicable Final Terms, the following credit ratings: A1 by Moody's Investors Service Limited ("**Moody's**"), A+ by Fitch Ratings Ltd. ("**Fitch**") and AA (low) by DBRS Ratings Limited ("**DBRS**" and, together with Moody's and Fitch, the "**Rating Agencies**" and, each of them, a "**Rating Agency**"). A credit rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency. The Covered Bonds issued under the Programme may also not be assigned a rating. If the Covered Bonds issued under the Programme may be assigned a rating, the credit rating applied for in relation to the Covered Bonds will be issued by credit rating agencies established in the EEA and registered under Regulation (EU) No 1060/2009 (as amended from time to time, the "**CRA Regulation**"). Please refer to the ESMA webpage http://www.esma.europa.eu/page/List-registered-and-certified- CRAs in order to consult the updated list of registered credit rating agencies Any websites included in the Prospectus are for information purposes only and do not form part of the Prospectus.

JOINT-ARRANGERS FOR THE PROGRAMME

Morgan Stanley | **Banca Monte dei Paschi di Siena S.p.A.** | **NatWest Markets**

DEALERS

Morgan Stanley | **MPS Capital Services Banca per le Imprese S.p.A.** | **NatWest Markets**

The date of this Prospectus is 22 January 2019.

This Prospectus is a base prospectus for the purposes of article 5.4 of the Prospectus Directive and for the purposes of giving information which, according to the particular nature of the Covered Bonds, is necessary to enable investors to make an informed assessment of the assets and liabilities, financial position, profit and losses and prospects of the Issuer and of the Guarantor and of the rights attaching to the Covered Bonds.

The Issuer and the Guarantor accept responsibility for the information contained in this Prospectus. To the best of the knowledge of the Issuer and the Guarantor (having taken all reasonable care to ensure that such is the case), the information contained in this Prospectus is in accordance with the facts and does not omit anything likely to affect the import of such information.

This Prospectus is to be read and construed in conjunction with any supplements hereto, with all documents which are incorporated herein by reference (see "Documents Incorporated by Reference") and, in relation to any Series or Tranche of Covered Bonds (as defined herein), with the relevant Final Terms (as defined herein).

No person has been authorised to give any information or to make any representation other than those contained in this Prospectus in connection with the issue or sale of the Covered Bonds and, if given or made, such information or representation must not be relied upon as having been authorised by the Issuer, the Guarantor, the Representative of the Bondholders or any of the Dealers or the Joint-Arrangers. Neither the delivery of this Prospectus nor any sale made in connection therewith shall, under any circumstances, create any implication that there has been no change in the affairs of the Issuer or the Guarantor since the date hereof or the date upon which this Prospectus has been most recently amended or supplemented or that there has been no adverse change in the financial position of the Issuer or the Guarantor since the date hereof or the date upon which this Prospectus has been most recently supplemented or that any other information supplied in connection with the Programme is correct as of any time subsequent to the date on which it is supplied or, if different, the date indicated in the document containing the same.

IMPORTANT – EEA RETAIL INVESTORS *If the Final Terms in respect of any Covered Bonds includes a legend entitled "Prohibition of Sales to EEA Retail Investors", the Covered Bonds are not intended to be offered, sold or otherwise made available to and 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**"); or (ii) a customer within the meaning of Directive (EU) 2016/97, where that customer would not qualify as a professional client as defined in point (10) of article 4(1) of MiFID II. Consequently, no key information document required by Regulation (EU) No 1286/2014 (the "**PRIIPs Regulation**") for offering or selling the Covered Bonds or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Covered Bonds or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.*

MiFID II PRODUCT GOVERNANCE / TARGET MARKET *The Final Terms in respect of any Covered Bonds may include a legend entitled "MiFID II Product Governance" which will outline the target market assessment in respect of the Covered Bonds and which channels for distribution of the Covered Bonds are appropriate. Any person subsequently offering, selling or recommending such Covered Bonds (a "**distributor**") should take into consideration the*

*target market assessment; however, a distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of the Covered Bonds (by either adopting or refining the target market assessment) and determining appropriate distribution channels. A determination will be made at the time of issue about whether, for the purpose of the product governance rules under EU Delegated Directive 2017/593 (the "**MiFID Product Governance Rules**"), any Dealer subscribing for a Tranche of Covered Bonds is a manufacturer in respect of that Tranche, but otherwise neither the Arranger nor the Dealers nor any of their respective affiliates will be a manufacturer for the purpose of the MiFID Product Governance Rules.*

This Prospectus does not constitute an offer of, or an invitation by or on behalf of the Issuer, the Guarantor, the Joint-Arrangers or the Dealers to subscribe for, or purchase, any Covered Bonds.

*The distribution of this Prospectus and the offering or sale of the Covered Bonds in certain jurisdictions may be restricted by law. Persons into whose possession this Prospectus comes are required by the Issuer, the Dealers and the Joint-Arrangers to inform themselves about and to observe any such restriction. The Covered Bonds have not been and will not be registered under the United States Securities Act of 1933, as amended (the "**Securities Act**"). Subject to certain exceptions, Covered Bonds may not be offered, sold or delivered within the United States or to US persons. There are further restrictions on the distribution of this Prospectus and the offer or sale of Covered Bonds in the European Economic Area, including the United Kingdom and the Republic of Italy, and in Japan. For a description of certain restrictions on offers and sales of Covered Bonds and on distribution of this Prospectus, see "Subscription and Sale".*

The Joint-Arrangers and the Dealers have not separately verified the information contained in this Prospectus. None of the Dealers or the Joint-Arrangers make any representation, express or implied, or accept any responsibility, with respect to the accuracy or completeness of any of the information in this Prospectus. Neither this Prospectus nor any other financial statements are intended to provide the basis of any credit or other evaluation and should not be considered as a recommendation by any of the Issuer, the Guarantor, the Representative of the Bondholders, the Joint-Arrangers or the Dealers that any recipient of this Prospectus or any other financial statements should purchase the Covered Bonds. Each potential purchaser of Covered Bonds should determine for itself the relevance of the information contained in this Prospectus and its purchase of Covered Bonds should be based upon such investigation as it deems necessary. None of the Dealers, the Representative of the Bondholders or the Joint-Arrangers undertake to review the financial condition or affairs of the Issuer or the Guarantor during the life of the arrangements contemplated by this Prospectus nor to advise any investor or potential investor in Covered Bonds of any information coming to the attention of any of the Dealers, the Representative of the Bondholders or the Joint-Arrangers.

In this Prospectus, unless otherwise specified or unless the context otherwise requires, all references to "£" or "Sterling" are to the currency of the United Kingdom, "Dollars" are to the currency of the United States of America and all references to "€", "euro" and "Euro" are to the lawful currency introduced at the start of the third stage of the European Economic and Monetary Union pursuant to the Treaty establishing the European Community, as amended from time to time.

For the avoidance of doubt, the content of any website referred to in this Prospectus does not form part of the Prospectus.

Figures included in this Prospectus have been subject to rounding adjustments; accordingly, figures shown for the same item of information may vary, and figures which are totals may not be the arithmetical aggregate of their components.

*In connection with any Series or Tranche of Covered Bonds, one or more Dealers or Managers may act as a stabilising manager (the "***Stabilising Manager***"). The identity of the Stabilising Manager will be disclosed in the relevant Final Terms. References in the next paragraph to "the issue" of any Series or Tranche of Covered Bonds are to each Series or Tranche of Covered Bonds in relation to which any Stabilising Manager is appointed.*

In connection with the issue of any Series or Tranche of Covered Bonds, the Dealer(s) or the Manager(s) (if any) named as the Stabilising Manager(s) (or any person acting on behalf of any Stabilising Manager(s)) in the applicable Final Terms may over-allot Covered Bonds or effect transactions with a view to supporting the market price of the Covered Bonds at a level higher than that which might otherwise prevail. However, there can be no assurance that the Stabilising Manager(s) (or any person acting on behalf of a Stabilising Manager) will undertake stabilisation action. Any stabilisation action may begin on or after the date on which adequate public disclosure of the final terms of the offer of the relevant Series or Tranche of Covered Bonds is made and, if begun, may be ended at any time, but it must end no later than the earlier of 30 days after the issue date of the relevant Series or Tranche of Covered Bonds and 60 days after the date of the allotment of the relevant Series or Tranche of Covered Bonds. Any stabilisation action or over-allotment must be conducted by the relevant Stabilising Manager(s) (or persons acting on behalf of any Stabilising Manager(s)) in accordance with all applicable laws and rules.

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RISK FACTORS

Each of the Issuer and the Guarantor believes that the following factors may affect their ability to fulfil their obligations under the Covered Bonds issued under the Programme. All these factors are contingencies which may or may not occur and neither the Issuer nor the Guarantor is in a position to express a view on the likelihood of any such contingency occurring. In addition, factors which the Issuer and the Guarantor believe may be material for the purpose of assessing the market risks associated with Covered Bonds issued under the Programme are also described below.

Each of the Issuer and the Guarantor believes that the factors described below represent the principal risks inherent in investing in the Covered Bonds issued under the Programme, but the inability of the Issuer or the Guarantor to pay interest, principal or other amounts on or in connection with any Covered Bonds may occur for other unknown reasons and neither the Issuer nor the Guarantor represents that the risks of holding any Covered Bonds are exhaustive. Prospective investors should also read the detailed information set out elsewhere in this Prospectus (including any document incorporated by reference) and reach their own views prior to making any investment decision.

This section describes the principal risk factors associated with an investment in the Covered Bonds. Prospective purchasers of Covered Bonds should consider carefully all the information contained in this Prospectus, including the considerations set out below, before making any investment decision. This section of the Prospectus is split into two main sections — General Investment Considerations and Investment Considerations relating to the Issuer and the Guarantor.

1. GENERAL INVESTMENT CONSIDERATIONS

1.1 *Issuer liable to make payments when due on the Covered Bonds*

The Issuer is liable to make payments when due on the Covered Bonds. The obligations of the Issuer under the Covered Bonds are direct, unsecured, unconditional and unsubordinated obligations, ranking *pari passu* without any preference amongst themselves and equally with its other direct, unsecured, unconditional and unsubordinated obligations.

The Guarantor has no obligation to pay the Guaranteed Amounts payable under the Guarantee until the occurrence of an Issuer Event of Default, after the service by the Representative of the Bondholders on the Issuer and on the Guarantor of a Guarantee Enforcement Notice. The occurrence of an Issuer Event of Default does not constitute a Guarantor Event of Default. However, failure by the Guarantor to pay amounts due under the Guarantee would constitute a Guarantor Event of Default which would entitle the Representative of the Bondholders to accelerate the obligations of the Issuer under the Covered Bonds (if they have not already become due and payable) and the obligations of the Guarantor under the Guarantee. Although certain of the Assets included in the Cover Pool are originated by the Issuer, they are transferred to the Guarantor on a true sale basis and an insolvency of the Issuer would not automatically result in the insolvency of the Guarantor.

1.2 *Obligations under the Covered Bonds*

The Covered Bonds will not represent an obligation or be the responsibility of any of the Joint-Arrangers, the Dealers, the Representative of the Bondholders or any other party to the

Programme, their officers, members, directors, employees, security holders or incorporators, other than the Issuer and, after the service by the Representative of the Bondholders of a Guarantee Enforcement Notice, the Guarantor. The Issuer and the Guarantor will be liable solely in their corporate capacity for their obligations in respect of the Covered Bonds and such obligations will not be the obligations of their respective officers, members, directors, employees, security holders or incorporators.

1.3 *Bondholders are bound by Extraordinary Resolutions and Programme Resolution*

A meeting of Bondholders may be called to consider matters which affect the rights and interests of Bondholders. These include (but are not limited to): instructing the Representative of the Bondholders to take enforcement action against the Issuer and/or the Guarantor; waiving an Issuer Event of Default or a Guarantor Event of Default; cancelling, reducing or otherwise varying interest payments or repayment of principal or rescheduling payment dates; extending the Test Remedy Period; altering the priority of payments of interest and principal on the Covered Bonds; and any other amendments to the Programme Documents. Certain resolutions are required to be passed as Programme Resolutions, passed at a single meeting of all holders of Covered Bonds, regardless of Series. A Programme Resolution will bind all Bondholders, irrespective of whether they attended the Meeting or voted in favour of the Programme Resolution. No Resolution, other than a Programme Resolution, passed by the holders of one Series of Covered Bonds will be effective in respect of another Series unless it is sanctioned by an Ordinary Resolution or an Extraordinary Resolution, as the case may require, of the holders of that other Series. Any Resolution passed at a Meeting of the holders of the Covered Bonds of a Series shall bind all other holders of that Series, irrespective of whether they attended the Meeting and whether they voted in favour of the relevant Resolution.

In addition, the Representative of the Bondholders may agree to the modification of the Programme Documents without consulting the Bondholders to correct a manifest error or an error established as such to the satisfaction of the Representative of the Bondholders or where such modification (i) is of a formal, minor, administrative or technical nature or to comply with mandatory provisions of law or (ii) in the sole opinion of the Representative of the Bondholders is expedient to make, is not or will not be materially prejudicial to Bondholders of any Series or Tranche.

It shall also be noted that after the delivery of a Guarantee Enforcement Notice, the protection and exercise of the Bondholders' rights against the Issuer will be exercised by the Guarantor (or the Representative of the Bondholders on its behalf). The rights and powers of the Bondholders may only be exercised in accordance with the Rules of the Organisation of the Bondholders. In addition, after the delivery of a Guarantor Default Notice, the protection and exercise of the Bondholders' rights against the Guarantor and the security under the Guarantee is one of the duties of the Representative of the Bondholders. The Conditions limit the ability of each individual Bondholder to commence proceedings against the Guarantor by conferring on the meeting of the Bondholders the power to determine in accordance with the Rules of Organisation of the Bondholders, whether any Bondholder may commence any such individual actions.

1.4 *Representative of the Bondholders' powers may affect the interests of the holders of the Covered Bonds*

In the exercise of its powers, trusts, authorities and discretions the Representative of the Bondholders shall only have regard to the interests of the holders of the Covered Bonds and the Other Guarantor Creditors but if, in the opinion of the Representative of the Bondholders, there is a conflict between these interests the Representative of the Bondholders shall have regard solely to the interests of the Bondholders. In the exercise of its powers, trusts, authorities and discretions, the Representative of the Bondholders may not act on behalf of the Seller.

If, in connection with the exercise of its powers, trusts, authorities or discretions, the Representative of the Bondholders is of the opinion that the interests of the holders of the Covered Bonds of any one or more Series or Tranche would be materially prejudiced thereby, the Representative of the Bondholders shall not exercise such power, trust, authority or discretion without the approval of such holders of the Covered Bonds by Extraordinary Resolution or by a direction in writing of such holders of the Covered Bonds of at least 75 per cent. of the Principal Amount Outstanding of Covered Bonds of the relevant Series or Tranche then outstanding.

1.5 *Extendible obligations under the Guarantee*

The Guarantor's obligations under the Guarantee to pay the Guaranteed Amounts of the relevant Series of Covered Bonds on their Maturity Date may be deferred pursuant to the Conditions until the Extended Maturity Date. Such deferral will occur automatically:

(a) in respect of a Series of Covered Bonds (each such Series, a Pass Through Series) if (i) a Guarantee Enforcement Notice has been served on the Issuer and the Guarantor as a result of the Issuer having failed to pay, in whole or in part, the Guaranteed Amounts on the Maturity Date for such Series of Covered Bonds and, on the relevant Extension Determination Date, the Guarantor has insufficient funds to pay, in accordance with the Guarantee Priority of Payments, the Guaranteed Amounts in respect of such Series of Covered Bonds, or (ii) a Guarantee Enforcement Notice has been served on the Issuer and the Guarantor following the occurrence of an Issuer Event of Default (other than the Issuer Event of Default referred to in paragraph (i) above) and, on the Maturity Date for such Series of Covered Bonds, the Guarantor has insufficient funds to pay, in accordance with the Guarantee Priority of Payments, the Guaranteed Amounts in respect of such Series of Covered Bonds; and

(b) in respect of all Series of Covered Bonds, which all become Pass Through Series, if, on any Test Calculation Date following the service of a Guarantee Enforcement Notice (and, in case of a Guarantee Enforcement Notice delivered as a result of an Article 74 Event, prior to the service of an Article 74 Event Cure Notice), the Calculation Agent notifies, through the Test Performance Report, the Issuer, the Sellers, any Additional Seller and the Guarantor that the Amortisation Test is not met.

To the extent that the Guarantor has received a Guarantee Enforcement Notice in sufficient time and has sufficient moneys available to pay in part the Guaranteed Amounts corresponding to the relevant Final Redemption Amount in respect of the relevant Series or Tranche of Covered Bonds, the Guarantor shall make partial payment of the relevant Final Redemption Amount in accordance with the Guarantee Priority of Payments and as described in Condition 9 (*Redemption and Purchase*) and payment of all unpaid amounts shall be deferred

automatically until the applicable Extended Maturity Date, **provided that** any amount representing the Final Redemption Amount due and remaining unpaid on the Extension Determination Date or the Maturity Date (as the case may be) may be paid by the Guarantor on any Guarantor Payment Date thereafter, up to (and including) the relevant Extended Maturity Date, in accordance with the applicable Priority of Payments. The Extended Maturity Date will fall 38 years after the Maturity Date.

Interest will continue to accrue and be payable on the unpaid amount in accordance with Condition 9 (*Redemption and Purchase*) and the Guarantor will pay Guaranteed Amounts, constituting interest due on each Guarantor Payment Date and on the Extended Maturity Date. In these circumstances, except where the Guarantor has failed to apply money in accordance with the Guarantee Priority of Payments, failure by the Guarantor to make payment in respect of the Final Redemption Amount on the Maturity Date (subject to any applicable grace period) (or such later date within the applicable grace period) shall not constitute a Guarantor Event of Default. However, failure by the Guarantor to pay the Guaranteed Amounts corresponding to the Final Redemption Amount on or the balance thereof or prior to the Extended Maturity Date and/or Guaranteed Amounts constituting interest on any Guarantor Payment Date will (subject to any applicable grace periods) be a Guarantor Event of Default.

1.6 *Limited secondary market*

There is, at present, a secondary market for the Covered Bonds but it is neither active nor liquid, and there can be no assurance that an active or liquid secondary market for the Covered Bonds will develop. The Covered Bonds have not been, and will not be, offered to any persons or entities in the United States of America or registered under any securities laws and are subject to certain restrictions on the resale and other transfer thereof as set forth under "Subscription and Sale". If an active or liquid secondary market develops, it may not continue for the life of the Covered Bonds or it may not provide Bondholders with liquidity of investment with the result that a Bondholder may not be able to find a buyer to buy its Covered Bonds readily or at prices that will enable the Bondholder to realise a desired yield. If, therefore, a market does develop, it may not be very liquid, and investors may not be able to sell their Covered Bonds 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 for bonds 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 bonds generally would have a more limited secondary market and more price volatility than conventional debt securities. Illiquidity may have a severely adverse effect on the market value of the Covered Bonds.

1.7 *Exchange Rate Risks and exchange controls*

The Issuer will pay principal and interest on the Covered Bonds 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 Covered Bonds, (2) the Investor's Currency-equivalent value

of the principal payable on the Covered Bonds, and (3) the Investor's Currency-equivalent market value of the Covered Bonds.

Government and monetary authorities may impose (as some have done in the past) exchange controls that could adversely affect an applicable exchange rate. As a result, investors may receive less interest or principal than expected, or no interest or principal.

1.8 *Priority of Payments*

Should any swap counterparty have its registered office in United Kingdom or United States of America, it is to be considered that the validity of contractual priorities of payments such as those contemplated in this transaction has been challenged in the English and U.S. courts. The hearings have arisen due to the insolvency of a secured creditor (in that case a hedging counterparty) and have considered whether such payment priorities breach the "anti-deprivation" principle under English and U.S. insolvency law. This principle prevents a party from agreeing to a provision that deprives its creditors of an asset upon its insolvency. It was argued that where a secured creditor subordinates itself to bondholders in the event of its insolvency, that secured creditor effectively deprives its own creditors. The Supreme Court of the United Kingdom in Belmont Park Investments PTY Limited (Respondent) v BNY Corporate Trustee Services Limited and Lehman Brothers Special Financing Inc. [2011] UK SC 38 unanimously upheld the decision of the Court of Appeal in dismissing this argument and upholding the validity of similar priorities of payment, stating that, **provided that** such provisions form part of a commercial transaction entered into in good faith which does not have as its predominant purpose, or one of its main purposes the deprivation of the property of one of the parties on bankruptcy, the anti-deprivation principle was not breached by such provisions.

In parallel proceedings in New York, Judge Peck of the U.S. Bankruptcy Court for the Southern District of New York granted Lehman Brothers Special Finance Inc.'s ("**LBSF**") motion for summary judgement on the basis that the effect was that the provisions infringed the anti-deprivation principle in a U.S. insolvency. Judge Peck acknowledged that this resulted in the U.S. courts coming to a decision "directly at odds with the judgement of the English Courts". In New York, whilst leave to appeal was granted, the case was settled before an appeal was heard.

This is an aspect of cross border insolvency law which remains untested. Whilst the priority issue is considered largely resolved in England and Wales, concerns still remain that the English and the U.S. courts may diverge in their approach which, in the case of an unfavourable decision in the U.S. may adversely affect the Issuer's ability to make payments on the Covered Bonds.

There remains the issue whether in respect of the foreign insolvency proceedings relating to a creditor located in a foreign jurisdiction, an English court will exercise its discretion to recognise the effects of the foreign insolvency proceedings, whether under the Cross Border Insolvency Regulations 2006 or any similar common law principles. Given the current state of U.S. law, this is likely to be an area of continued judicial focus particularly in respect of multi-jurisdictional insolvencies.

Additionally, there can be no assurance as to how such subordination provisions would be viewed in other jurisdictions such as Italy or whether they would be upheld under the insolvency laws of any such relevant jurisdiction. If a subordination provision included in the

Programme Documents was successfully challenged under the insolvency laws of any relevant jurisdiction and any relevant foreign judgement or order was recognised by the Italian courts, there can be no assurance that these actions would not adversely affect the rights of the Bondholders, the rating of the Covered Bonds, the market value of the Covered Bonds and/or the ability of the Issuer to satisfy all or any of its obligations under the Covered Bonds.

1.9 *Ratings of the Covered Bonds*

The ratings that may be assigned by Moody's to the Covered Bonds address the expected loss posed to the Bondholders following a default. The ratings that may be assigned by Fitch to the Covered Bonds incorporate both an indication of the probability of default and the probability of recovery following a default of such debt instrument. The ratings that may be assigned by DBRS to the Covered Bonds evaluates both qualitative and quantitative factors when assigning ratings.

The expected ratings of the Covered Bonds will be set out in the relevant Final Terms for each Series or Tranche of Covered Bonds. Any Rating Agency may lower its rating or withdraw its rating if, *inter alia*, in the sole judgment of that Rating Agency, the credit quality of the Covered Bonds has declined or is under evaluation. If any rating assigned to the Covered Bonds is lowered or withdrawn, the market value of the Covered Bonds may be reduced. A security credit rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time.

Each of Moody's, Fitch and DBRS is established in the EEA and is registered under the Regulation (EU) No 1060/2009 (as amended from time to time, the "**CRA Regulation**"). In general, European regulated investors are restricted from using a rating for regulatory purposes if such rating is not issued by a credit rating agency established in the EEA and registered under the CRA Regulation (or is endorsed and published or distributed by subscription by such a credit rating agency in accordance with the Regulation) unless the rating is provided by a credit rating agency operating in the EEA before 7 June 2010 which has submitted an application for registration in accordance with the CRA Regulation and such registration is not refused. (Please refer to the ESMA webpage http://www.esma.europa.eu/page/List-registered-and-certified-CRAs in order to consult the updated list of registered credit rating agencies).

1.10 *Covered Bonds issued under the Programme*

Covered Bonds issued under the Programme will either be fungible with an existing Series of Covered Bonds (in which case one or more Tranche of Covered Bonds will form part of such Series) or have different terms to an existing Series of Covered Bonds (in which case they will constitute a new Series).

All Covered Bonds issued from time to time will rank *pari passu* with each other in all respects and will share in the security granted by the Guarantor under the Guarantee. Following the service on the Issuer and on the Guarantor of a Guarantee Enforcement Notice (but prior to a Guarantor Event of Default and service of a Guarantor Default Notice on the Guarantor) the Guarantor will use all monies to pay Guaranteed Amounts in respect of the Covered Bonds when the same shall become Due for Payment subject to paying certain higher ranking obligations of the Guarantor in the Guarantee Priority of Payments. In such circumstances, the Issuer will only be entitled to receive payment from the Guarantor of interest, Premium and repayment of principal under the Term Loans granted, from time to time, pursuant to the Subordinated Loan Agreement, after all amounts due under the Guarantee in respect of the

Covered Bonds have been paid in full or have otherwise been provided for. Following the occurrence of a Guarantor Event of Default and service of a Guarantor Default Notice on the Guarantor, the Covered Bonds will become immediately due and repayable and Bondholders will then have a claim against the Guarantor under the Guarantee for an amount equal to the Principal Amount Outstanding plus any interest accrued in respect of each Covered Bond, together with accrued interest and any other amounts due under the Covered Bonds, and any Guarantor Available Funds will be distributed according to the Post-Enforcement Priority of Payments.

In order to ensure that any further issue of Covered Bonds under the Programme does not adversely affect existing holders of the Covered Bonds:

(a) any Term Loan granted by the Issuer and/or any Additional Seller(s) to the Guarantor under the terms of the Subordinated Loan Agreements, may only be used by the Guarantor (i) as consideration for the acquisition of Eligible Assets and of the Top-Up Assets from the Principal Seller, or any Additional Seller(s) pursuant to the terms of the Master Assets Purchase Agreement and the Cover Pool Management Agreement; and (ii) in certain specific circumstances and in respect of the Floating Interest Term Loan or Fixed Interest Term Loan, for the purpose of reimbursing (also in part) any Term Loan for an amount equal to the Corresponding Series or Tranche of Covered Bonds;

(b) the Issuer must always ensure that (i) prior to delivery of a Guarantee Enforcement Notice, the Mandatory Tests and the Asset Coverage Test, and (ii) following the delivery of a Guarantee Enforcement Notice, the Mandatory Tests and the Amortisation Test are satisfied on each Test Calculation Date or, as applicable, Quarterly Test Calculation Date (when required by Programme Documents) in order to ensure that the Guarantor can meet its obligations under the Guarantee; and

(c) on or prior to the date of issue of any further Series or Tranche of Covered Bonds, the Issuer will be obliged to obtain a Rating Agency Confirmation.

1.11 ***Controls over the transaction***

The Bank of Italy Regulations require that certain controls be performed by the Issuer aimed at, *inter alia*, mitigating the risk that any obligation of the Issuer or the Guarantor under the Covered Bonds is not complied with. Whilst the Issuer believes it has implemented the appropriate policies and controls in compliance with the relevant requirements, investors should note that there is no assurance that such compliance ensures that the aforesaid controls are actually performed and that any failure to properly implement the respective policies and controls could have an adverse effect on the Issuers' or the Guarantor's ability to perform their obligations under the Covered Bonds.

1.12 ***Limits to Integration***

The integration of the Cover Pool, whether through Eligible Assets or through Top-Up Assets, shall be carried out in accordance with the modalities, and subject to the limits, set out in the Bank of Italy Regulations (see "*Description of Certain Relevant Legislation in Italy - Substitution of Assets*").

More specifically, under the Bank of Italy Regulations, integration is allowed exclusively for the purpose of (a) complying with the Mandatory Tests; (b) complying with any contractual overcollateralisation requirements agreed by the parties to the relevant Programme Documents or (c) complying with the limit of 15 per cent. in relation to certain Top-Up Asset including in the Cover Pool.

Investors should note that Integration is not allowed in circumstances other than as set out in the Bank of Italy Regulations and specified above.

1.13 *Tax consequences of holding the Covered Bonds - No Gross-up for Taxes*

Potential investors should consider the tax consequences of investing in the Covered Bonds and consult their tax adviser about their own tax situation. Notwithstanding anything to the contrary in this Prospectus, if withholding of, or deduction of any present or future taxes, duties, assessments or charges of whatever nature is imposed by or on behalf of Italy, any authority therein or thereof having power to tax, the Guarantor will make the required withholding or deduction of such taxes, duties, assessments or charges for the account of the Bondholders, as the case may be, and shall not be obliged to pay any additional amounts to the Bondholders.

1.14 *Prospectus to be read together with applicable Final Terms*

The Prospectus, to be read together with applicable Final Terms of Covered Bonds included in this Prospectus, applies to the different types of Covered Bonds which may be issued under the Programme. The full terms and conditions applicable to each Series or Tranche of Covered Bonds can be reviewed by reading the Conditions as set out in full in this Prospectus, which constitute the basis of all Covered Bonds to be offered under the Programme, together with the applicable Final Terms which apply and/or disapply and complete the Conditions of the Programme in the manner required to reflect the particular terms and conditions applicable to the relevant Series or Tranche of Covered Bonds.

1.15 *Legal investment considerations may restrict certain investments*

The investment activities of certain investors are subject to 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) it can legally invest in Covered Bonds (ii) Covered Bonds can be used as collateral for various types of borrowing and "repurchase" arrangements and (iii) other restrictions apply to its purchase or pledge of any Covered Bonds. Financial institutions should consult their legal advisers or the appropriate regulators to determine the appropriate treatment of Covered Bonds under any applicable risk-based capital or similar rules.

1.16 *Changes of law*

The structure of the issue of the Covered Bonds and the ratings which are to be assigned to them are based on Italian law and, in the case of the Swap Agreements and the English Account Bank Agreement, English law in effect as at the date of this Prospectus. No assurance can be given as to the impact of any possible change to Italian or English law or administrative practice or to the law applicable to any Programme Document and to administrative practices in the relevant jurisdiction.

1.17 ***Law 130***

Law 130 was enacted in Italy in April 1999 and amended to allow for the issuance of covered bonds in 2005. Law 130 was further amended by law decree No. 145 of 23 December 2013, called "*Decreto Destinazione Italia*" (the "***Destinazione Italia*** **Decree**") converted into law No. 9 of 21 February 2014, and by law decree No. 91, called "*Decreto Competitività*" (the "**Law Decree *Competitività***", converted into law No. 116 of 11 August 2014). As at the date of this Prospectus, no interpretation of the application of Law 130 as it relates to covered bonds has been issued by any Italian court or governmental or regulatory authority, except for (i) the Decree of the Italian Ministry for the Economy and Finance No. 130 of 14 December 2006 ("**Decree No. 310**"), setting out the technical requirements of the guarantee which may be given in respect of covered bonds and (ii) Part III, Chapter 3 of the "*Disposizioni di Vigilanza per le Banche*" (Circular No. 285 of 17 December 2013, as amended) as amended and supplemented from time to time, concerning guidelines on the valuation of assets, the procedure for purchasing Substitution Assets and controls required to ensure compliance with the legislation. Consequently, it is possible that such or different authorities may issue further regulations relating to Law 130 or the interpretation thereof, the impact of which cannot be predicted by the Issuer as at the date of this Prospectus.

1.18 ***The Covered Bonds may not be a suitable investment for all investors***

Each potential investor in the Covered Bonds must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should:

(a) have sufficient knowledge and experience to make a meaningful evaluation of the Covered Bonds, the merits and risks of investing in the Covered Bonds and the information contained or incorporated by reference in this Prospectus or any applicable supplement;

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

(c) have sufficient financial resources and liquidity to bear all of the risks of an investment in the Covered Bonds, including Covered Bonds 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;

(d) understand thoroughly the terms of the Covered Bonds and be familiar with the behaviour of any relevant indices and financial markets; and

(e) be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

Some Covered Bonds are complex financial instruments. Sophisticated institutional investors generally do not purchase complex financial instruments as stand-alone investments. They purchase complex financial instruments as a way to reduce risk or enhance yield with an understood, measured, appropriate addition of risk to their overall portfolios. A potential investor should not invest in Covered Bonds which are complex financial instruments unless it has the expertise (either alone or with a financial adviser) to evaluate how the Covered Bonds

will perform under changing conditions, the resulting effects on the value of the Covered Bonds and the impact this investment will have on the potential investor's overall investment portfolio.

1.19 *Risks related to the structure of a particular issue of Covered Bonds*

A wide range of Covered Bonds may be issued under the Programme. A number of these Covered Bonds may have features which contain particular risks for potential investors. Set out below is a description of the most common of these features:

1.20 *Covered Bonds subject to optional redemption by the Issuer*

If in the case of any particular Tranche of Covered Bonds the relevant Final Terms specifies that the Covered Bonds are redeemable at the Issuer's option pursuant to Condition 9(d) (*Redemption at the option of the Issuer*), the Issuer may choose to redeem the Covered Bonds at times when prevailing interest rates may be relatively low. In such circumstances an investor may not be able to reinvest the redemption proceeds in a comparable security at an effective interest rate as high as that of the relevant Covered Bonds.

An optional redemption feature of Covered Bonds is likely to limit their market value. During any period when the Issuer may elect to redeem Covered Bonds, the market value of those Covered Bonds generally will not rise substantially above the price at which they can be redeemed. Further, during any period in which there is an actual or perceived increase in the likelihood that the Issuer may redeem the Covered Bonds, the price of the Covered Bonds may also be adversely impacted. This also may be true prior to any redemption period.

The Issuer may be expected to redeem Covered Bonds when its cost of borrowing is lower than the interest rate on the Covered Bonds. 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 Covered Bonds 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.

1.21 *Zero Coupon Covered Bonds*

The Issuer may issue Covered Bonds bearing no interest, which may be offered and sold at a discount to their nominal amount.

1.22 *Amortising Covered Bonds*

The Issuer may issue amortising Covered Bonds with a predefined, prescheduled amortisation schedule where, alongside interest, the Issuer will pay, at each Interest Payment Date specified in the relevant Final Terms, a portion of principal until maturity.

1.23 *Fixed/Floating Rate Covered Bonds*

Fixed/Floating Rate Covered Bonds may bear interest at a rate that converts 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 conversion, this will affect the secondary market and the market value of the Covered Bonds since the Issuer may be expected to convert the rate when it is likely to produce a lower overall cost of borrowing. If the Issuer converts from a fixed rate to a floating rate in such circumstances, the spread on the Fixed/Floating Rate Covered Bonds may be less favourable

than then prevailing spreads on comparable Floating Rate Covered Bonds tied to the same reference rate. In addition, the new floating rate at any time may be lower than the rates on other Covered Bonds. If the Issuer converts from a floating rate to a fixed rate in such circumstances, the fixed rate may be lower than then prevailing rates on its Covered Bonds.

1.24 ***Redemption for tax reasons***

In the event that the Issuer would be obliged to increase the amounts payable in respect of any Covered Bonds due to any 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 taxing jurisdiction (as referred to in Condition 11 (*Taxation*)), as a result of any change in, or amendment to, the laws or regulations of any taxing jurisdiction 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 of issue of the first Series of the Covered Bonds and such obligation cannot be avoided by the Issuer taking reasonable measures available to it, the Issuer may redeem all outstanding Covered Bonds in accordance with the Terms and Conditions. In such circumstances an investor may not be able to reinvest the redemption proceeds in a comparable security at an effective interest rate as high as that of the relevant Covered Bonds.

1.25 ***Interest rate risks***

Investment in Fixed Rate Covered Bonds involves the risk that subsequent changes in market interest rates may adversely affect the value of the Fixed Rate Covered Bonds.

1.26 ***Floating rate risks***

Investment in Floating Rate Covered Bonds involves the risk for the Bondholders of fluctuating interest rate levels and uncertain interest earnings.

1.27 ***Potential conflicts of interest***

Any Calculation Agent appointed under the Programme (whether a Paying Agent or otherwise) is the agent of the Issuer and not the agent of the Bondholders. Potential conflicts of interest may exist between the Calculation Agent (if any) and Bondholders (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 Bondholders during the term of the Covered Bonds and upon their redemption.

1.28 ***Mortgage borrower protection***

Certain recent legislation enacted in Italy, has given new rights and certain benefits to mortgage debtors and/or reinforced existing rights, including, *inter alia*:

- the right of prepayment of the principal amount of the mortgage loan, without incurring a penalty or, in respect of mortgage loan agreements entered into before 2 February 2007, at a reduced penalty rate (article 120-*ter* of the Consolidated Banking Act, introduced by Legislative Decree No. 141 of 13 August 2010 as amended by Legislative Decree No. 218 of 14 December 2010);

- right to the substitution (*portabilità*) of a mortgage loan with another mortgage loan and/or the right to request subrogation by an assignee bank into the rights of their creditors in accordance with article 1202 (*surrogazione per volontà del debitore*) of the Civil Code, by eliminating the limits and costs previously borne by the borrowers for the exercise of such right (article 120-*quater* of the Consolidated Banking Act, introduced by Legislative Decree No. 141 of 13 August 2010 as amended by Legislative Decree No. 218 of 14 December 2010);

- the right of first home-owners to suspend instalment payments under mortgage loans up to a maximum of two times and for a maximum aggregate period of 18 months (Italian Law No. 244 of 24 December 2007, the "**2008 Budget Law**");

- the right to suspend the payment of principal instalments relating to mortgage loans for a 12 month period, where requested by the relevant Debtor during the period from 1 June 2015 to 31 December 2017 (Convention between ABI and the consumers' associations stipulated on 31 March 2015, the "***Credito Famiglie***");

- the right to renegotiate, subject to certain conditions and up to 31 December 2012, the floating rate or the final maturity of the Mortgage Loans executed prior to (and excluding) 14 May 2011 for the purpose of purchasing, building or for the maintenance of the debtors' principal residence (law decree number 70 of 13 May 2011, as converted into Law No. 106 of 12 July 2011, the "***Decreto Sviluppo***");

- automatic suspension of instalment payments of mortgages and loans, up to 31 December 2016, to residents, both individuals and businesses, in 62 municipalities affected by the heartquake and listed in the relevant decree (law decree number 189 of October 2016, the "**Decree 189**");

- extension of suspension of instalment payments as per Decree 189 to further municipalities, up to 31 December 2016 (Council of Ministers Order of 15 November 2016, published in the Official Gazette of the Republic of Italy (*Gazzetta Ufficiale della Repubblica Italiana*) No. 283 of 3 December 2016, the "**Order 283**"). Considering the shortness of such suspensions provided under Decree 189 and Order 283, the Bank has suspended the relevant payments free of charge;

- automatic suspension of instalment payments of mortgages and loans, up to 31 December 2017, to residents, both individuals and businesses, in certain municipalities affected by the heartquake and listed in the relevant decree (law decree number 244 of 30 December 2016, the "***Decreto Milleproroghe***"). In relation to individuals the *Decreto Milleproroghe* provide first home-owners with the right to suspend instalment payments under mortgage loans up to 30 December 2017 in case of damages which do not permit access thereto. In relation to businesses, the *Decreto Milleproroghe* provide with the automatic suspension of instalment payments under mortgage loans up to 30 December 2017 only to certain municipalities listed therein;

- the right to suspend instalment payments relating to mortgage loans in case of (i) damages which do not permit access to the relevant building, (ii) commercial businesses located in the relevant municipalities up to a maximum period corresponding to the state of emergency as per Council of Ministers Order dated 20 September 2017 and declaration of up to 180 days state of emergency caused by exceptional weather

conditions in Livorno, Rosignano Marittimo e Collesalvetti (published in the Official Gazette of the Republic of Italy (*Gazzetta Ufficiale della Repubblica Italiana*) No. 226 of 27 September 2017 "**Order 226**").

- the right to suspend instalment payments relating to mortgage loans in case of (i) damages which do not permit access to the relevant building, (ii) commercial businesses located in the relevant municipalities up to a maximum period corresponding to the state of emergenc as per Council of Ministers Order dated 8 September 2017 and declaration of up to 180 days state of emergency caused by a earthquake in the Ischia Island (published in the Official Gazette of the Republic of Italy (*Gazzetta Ufficiale della Repubblica Italiana*) No. 218 of 18 September 2017 "**Order 218**")

This legislation may have an adverse effect on the Cover Pool and, in particular, on any cash flow projections concerning the Cover Pool as well as on the over-collateralisation required in order to maintain the then current ratings of the Covered Bonds. However, the Asset Coverage Test has been structured in such a way to attribute a zero weight to any Mortgage Receivable in respect of which instalments are suspended as a consequence of the granting of a deferral of the payment of its interest and/or principal instalments in accordance with the application of moratoria provisions from time to time granted to Debtors by any laws, agreements between Italian banking associations and national consumer associations, the Bank of Italy or other regulatory bodies regulations ("**Payment Holiday**") therefore, to the extent that any Payment Holiday granted in respect of Mortgage Receivables included in the Cover Pool may lead to a breach of Tests, the Issuer will be required to sell to the Guarantor subsequent portfolios of Eligible Asset and/or Top-Up Assets in accordance with the Cover Pool Management Agreement and the Master Assets Purchase Agreement in order to remedy such breach, see "*Description of Certain Relevant Legislation in Italy*". However upon occurrence of an Issuer Event of Default a massive adhesion to such Payment Holidays may adversely affect the cashflows deriving from the Cover Pool and as a consequence the repayment of the Covered Bonds.

2. RISK FACTORS RELATING TO THE ISSUER AND THE GROUP

2.1 *Risks associated with the failed realisation of the Restructuring Plan*

The approval of the Restructuring Plan 2017 – 2021 (the "**Restructuring Plan**") of the Bank by the European Commission on 4 July 2017 allowed the precautionary recapitalisation of the Bank in compliance with the legislation applicable to banks in the matter of "State aid".

The precautionary recapitalisation has been implemented through the Italian Ministry of Economy and Finance ("**MEF**")'s publication of the decrees aimed also at executing the Burden Sharing (as defined in "*Risks associated with the application of Burden Sharing in the context of precautionary recapitalisation intervention*" below).

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)(the

"**Commitments**"). The Issuer proposed – with favourable opinion of the ECB Directorate General Competition (DG Comp) – the appointment of Degroof Petercam Finance as monitoring trustee (that acted as monitoring trustee for the Commitments of the BMPS' restructuring plan 2013-2017 as well). The first monitoring was carried out during the last quarter of 2017 with reference to the data available as at 30 September 2017; subsequently the monitoring activity has been and continue to be carried out quarterly.

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 return on equity (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 ratio between the gross value of the Impaired Loans (as defined below) and the total amount of the receivables ("**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 (as defined below) 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, which as of the date of this Prospectus has been completed.

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.

Therefore, there is a risk that the Bank may not be able to keep pace with said competitors' growth; if the performance misalignment with respect to the main competitors' performance is such as to involve the failure to comply with one or more Commitments of the Restructuring Plan, the adjustment mechanisms described below may be activated.

Furthermore, the Restructuring Plan is consistent with and reflects the Commitments given to the European Commission and is in line with the parameters set out in the letter relating to the annual review and supervisory assessment (the "Supervisory Review and Evaluation Process" or "SREP") received on 19 June 2017 ("SREP Decision 2017"). In said document, the European Central Bank ("ECB") required the Bank to comply, starting from 2018, with a level of Total

SREP Capital Requirement ("TSCR") on a consolidated basis equal to 11 per cent., including the minimum requirement of Common Equity Tier 1 ("Pillar I") equal to 8 per cent. and an additional requirement equal to 3 per cent. ("Pillar II"), entirely based on Common Equity Tier 1. Consequently, the Group is required to comply with the following requirements at consolidated level as of 1 January 2018: 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., including, in addition to Pillar I and Pillar II, a capital conservation buffer equal to 1.875 per cent. and an Other Systemically Important Institutions Buffer ("O-SII Buffer") equal to 0.06 per cent. The capital conservation buffer will be at full stream in 2019 with 2.5 per cent. It should be noted that, starting from 1 January 2019, the Group will not be required to comply with the O-SII Buffer since it has not been qualified by the Bank of Italy as a national systemically important institution authorised to operate in Italy. For more information on the capital adequacy requirements which the Bank has to comply with, please see "*Risk associated with capital adequacy*".

In March 2018, the ECB published the addendum to the guidance to banks on non-performing loans dated 20 March 2017. Said document, which was being consulted on from 4 October 2017, provides further guidance on the non-performing loans (NPLs) by specifying the ECB's supervisory expectations when assessing a bank's prudential provisioning levels for impaired exposures. In light of the above, for exposures that will be at default from 1 April 2018, the ECB will assess, among several aspects, the period of time during which the exposure has been classified as impaired (i.e. its "seniority"), as well as the collaterals held (where applicable). The ECB's expectations have no accounting impact, but concern the assessment of capital adequacy. During the supervisory consultation, which takes place at least once a year within the scope of the SREP, the ECB shall discuss with banks any inconsistencies between the coverage level adopted and the expectations on prudential provisioning levels, starting with the evaluation process of 2021. Since the addendum was consulted at a later date with respect to the approval of the Restructuring Plan and, therefore, the Restructuring Plan does not consider the possible effects of the addendum, from 2021 the Bank's SREP target may have to take into account additional capital requirements, consistent with the provisions of the aforementioned addendum and/or the targets of the Restructuring Plan may not be achieved due to the higher coverage levels on non-performing loans arising after 1 April 2018.

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 (as defined below), 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 value at risk ("**VaR**") and of the 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.

The monitoring activity carried out by the monitoring trustee, although performed - as said - on a regular basis each quarter, gains formal relevance only on the occasion of specific deadlines agreed upon with the European Commission. As a consequence, the identification of any deviations from the Commitments on the occasion of checks performed at times other than the above deadlines shall not be deemed to indicate non-compliance with the Commitments.

With reference to the transfer of foreign banks, referred to under paragraph (iv) above, on 5 October 2018 BMPS reached an agreement for the sale of Banca Monte Paschi Belgio S.A. to a company held by funds managed by Warburg Pincus, in accordance with the Commitments of the Restructuring Plan. As at the date of this Prospectus, the assignment is not effective yet and it is subject to the approval of both the National Bank of Belgium and of the ECB..

Should the Issuer be unable to achieve the Commitments, in whole or in part, it might suffer the adverse effects, including any material adverse effects, of any orders adopted by the European Commission *vis-à-vis* the Italian State as a consequence of the failure to comply with

the commitments undertaken as part of the Restructuring Plan, with potential adverse effects, including material adverse effects, on the Issuer's and/or Group's assets, liabilities and financial situation.

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. In particular, the Restructuring Plan 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 (e.g. the trend of the spread BTP-bund) 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 impacts 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 (including 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.

2.2 *Risks associated with capital adequacy*

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.

The requirements of capital adequacy are defined by the provisions of EU Directive 2013/36 of the European Parliament and of the Council about access to credit institutions' activities, about credit institutions' prudential supervision and about investment undertakings (the so-called "**CRD IV**") and by (EU) Regulation 575/2013 of the European Parliament and of the Council of 26 June 2013 concerning the prudential requirements for credit institutions and investment firms (the so-called "**CRR**"), transposing in the European Union the standards defined by the Basel Committee on Banking Supervision (the so-called "**Basel III framework**"). In Italy, the community regulation was implemented first and foremost by Circular No. 285 (as defined below) of the Bank of Italy, as amended from time to time and, eventually, on 8 May 2015 by the Council of Ministers, which approved the legislative decree amending the Banking Consolidation Act and the Consolidated Finance Act. The above regulatory acts apply as from 1 January 2014.

Moreover, as from 4 November 2014 the Single Supervisory Mechanism ("**SSM**") is in force, as part of which the BCE was assigned specific tasks of credit institutions' prudential supervision, in collaboration with the national supervisory authorities of the contracting countries. More specifically, the BCE is now in charge of the supervision of all banks of the Euro area, directly in the case of "major" banks, including Montepaschi Group, and indirectly insofar as other banks are concerned, which are monitored by the national supervisory authorities in compliance with the criteria established by the ECB itself.

(a) *Risks of capital adequacy applicable to the Issuer*

As at the date of this Prospectus, the banks must meet the own funds requirements provided by article 92 of the CRR: (i) the Common Equity Tier 1 Ratio must be equal to at least 4.5 per cent. of the total risk exposure amount of the Bank; (ii) the Tier 1 Ratio must be equal to at least 6 per cent. of the total risk exposure amount of the Bank; and (iii) the Total Capital Ratio must be equal to at least 8 per cent. of the total risk exposure amount of the Bank.

Further to the minimum regulatory requirements, the banks must meet the combined buffer requirement provided by the CRD IV, which is equal to the requirement concerning the sum of the following buffers, if applicable (the "**Combined Buffer Requirement**"):

- capital conservation buffer equal to 1.875 per cent. for 2018 and to 2.5 per cent. as from 1 January 2019;
- institution specific countercyclical capital buffer, to be applied to periods of credit overgrowth, calculated on a quarterly basis depending on the geographic distribution of the relevant credit exposures of the Group and on the decisions of each competent national authorities setting the specific ratios applicable in each country. The Bank of Italy published, during the four quarters of 2018, the decision whereby the

countercyclical capital buffer ratio applicable to the exposures towards the Italian counterparts was set to 0 (zero) per cent;

- buffer for Global Systemically Important Institutions ("**G-SII**"), not including, among others, the Issuer as at the date of this Prospectus;

- buffer for other systemically important institutions, ("**O-SII**") at a local level for Montepaschi Group, equal to 0.06 per cent. for 2018. On 30 November 2018, the Bank of Italy informed the Issuer that it is no longer qualified as a national systemically important institution authorised to operate in Italy and, therefore, as from 1 January 2019, it is not required to hold the capital buffer provided for the O-SII; and

- systemic risk buffer, aimed at preventing and minimising - in the long term - the macroprudential countercyclical systemic risk not provided by the CRR (not applicable as at the date of this Prospectus).

Banks that 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 these conditions not 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 calling in investors to participate in further capital increase transactions.

With respect to the SREP to which the Group was subject during 2016, it should be noted that on 19 June 2017, the ECB required the Bank to comply, starting from 1 January 2018, with a level of 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 (Pillar II), 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 II 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 (Pillar II) 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 II capital guidance", the supervisory authority, which shall be promptly informed in detail 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 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 interest, 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 please see "*Banca Monte dei Paschi di Siena S.P.A. – Major Events – Recent developments – 2017 – SREP annual process*".

Having regard to the liquidity ratios, and more specifically to the short-term Liquidity Coverage Ratio (or "**LCR**"), having as its objective the creation and preservation of a liquidity buffer allowing the bank's survival for a period of time equal to 30 days in the event of severe stress, and to the structural liquidity ratio (Net Stable Funding Ratio, or "**NSFR**") over the time-frame of one year, introduced to ensure that assets and liabilities have a sustainable structure in terms of due dates, it should be pointed out that:

- as to the LCR, the requirement to be met is 100 per cent. starting from 1 January 2018; and
- as to the NSFR, the European Union regulation is introduced in the legislative proposal to amend the CRR – referred to as CRR II - by the European Commission, published on 23 November 2016, whose implementation date and final contents shall depend on the timing and outcomes of the conclusion of the relevant legislative process. The mandatory minimum threshold of the ratio shall be equal to 100 per cent..

Moreover, it should be highlighted that the Issuer shall also ensure compliance with the Leverage Ratio, which will amount to an additional mandatory requirement compared to the risk-based ratios. Full implementation of the leverage ratio as a measurement of the Pillar I in the EU is currently under consultation as part of the "CRR II / CRD V" group of reforms, whose implementation date and final contents shall depend on the timing and outcome of the conclusion of the relevant legislative process. It should be highlighted in this respect that the Basel Committee proposed a minimum leverage ratio of 3 per cent..

Depending on the outcomes of the legislative process underway in Europe, the Issuer might be compelled to adapt to changes in the regulations and in their construction and/or implementation procedures adopted by the supervisory authorities, with potential adverse effects on the Issuer's assets, liabilities and financial situation.

Among the main risk factors which could lead to a change in capital requirements, there is the differential yield between Italian and German government bonds (BTP-Bund spread), the increase of which leads to a reduction in capital reserves (FVTOCI Reserve, as defined below) with a consequent decrease in regulatory capital. As at 30 September 2018, the sensitivity to the credit spread of such reserve, calculated gross of tax, was approximately Euro -3.3 million for each basis point of change in the BTP-Bund spread. It should also be noted that the effects on regulatory capital and capital absorptions may derive from any regulatory changes concerning, for example, the treatment of deferred tax assets.

With reference to the internal models used to calculate capital requirements for credit risk, it should be noted that in recent years a review of internal corporate and retail standards has been carried out, including the most recent data in the historical development series, which are more representative of the current economic situation. In addition, in order to start in good time the updating activities envisaged for the AIRB models and to meet the compliance goals scheduled by the Supervisory Authority for the next few years, the Group has already begun discussions with the Supervisory Authority itself, proposing the new calculation methods relating to the new definition of default and the definition of a framework for calculating RWA on Defaulted Assets. In addition, in 2018, the Group, like the other major European banks subject to SSM, continued its work on TRIM (Targeted Review of Internal Models), which is expected to be completed in 2019. Probably, the final outcome of TRIM will result in further methodological changes to the current internal models with significant impacts on RWA; in particular, the introduction of the new definition of default (expected by 31 December 2020) and the introduction of specific standards for calculating LGD on Defaulted Assets and Expected Loss Best Estimate (ELBE) could imply a major revision of all Probability of Default ("**PD**") and LGD, with a consequent possible change in capital requirements, not quantifiable to date. In this case, it cannot be excluded that the Issuer may have to resort to capital strengthening measures and that it may not be able to establish and/or maintain the capital requirements determined, from time to time, by the Supervisory Authority.

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 a potential negative impact, 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 "Risks associated with the Group’s exposure to Impaired Loans" – 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.

(b) *Risks associated with capital adequacy and SREPs of foreign branches*

The Montepaschi 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 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 impacts 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 2018, the contribution to the Group RWA of Banca Monte Paschi Belgio S.A. and Monte Paschi Banque S.A. is equal to, respectively, 1.3 per cent. and 1 per cent..

In relation to weakness profiles/improvement areas identified in the context of the SREP, subsidiaries defined 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 of 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 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 the 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 impact on the

economic, capital and/or financial condition, also due to the significant restructuring costs and any reduction in the deposit collection. In this respect, it should be noted that, on 5 October 2018, BMPS entered into an agreement with a company controlled by funds managed by Warburg Pincus for the sale of MP Belgio as provided for by the Commitments of the Restructuring Plan. As of the date of this Prospectus, the transfer is subject to the approval of the Belgian national bank and the ECB.

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 (also, *inter alia*, following the completion of SREP 2018), having to resort to capital enhancement interventions, nor it can 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 impacts 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 Legislative Decree No. 180 of 16 November 2015, as amended from time to time ("**Decree 180**"), implementing Directive 2014/59/EU for the recovery and resolution of credit institutions ("**BRRD**") in Italy.

2.3 *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 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, with 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 "**Consolidated 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 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 time and manner.

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 impact 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 related Group companies, with possible negative impact on the economic, capital and/or financial condition of the Group.

For a description of the inspection activities recently carried out by the supervisory authorities on the Issuer and the relevant administrative proceedings please see "*Banca Monte dei Paschi di Siena S.p.A. – Major Events – ECB/Bank of Italy inspections concluded during the period 2015-2018*" of this Prospectus.

(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.

After the SREP's completion, in line with article 16(2) of Reg. 1024/2013 and in relation to the foreign branches, MP Belgio and MP Banque, the ECB highlighted some weakness profiles/focus areas and requested additional capital requirements. For further information on additional capital requirements, reference is made to "*Risks associated with capital adequacy and SREPs of foreign branches*".

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 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 the SREP conducted at least every year by the ECB, the supervisory authority may require compliance with capital adequacy levels higher than 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 Montepaschi 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 for the restoration of capital resources and to support the subsidiaries' level of assets and investments and this may have negative impact also on the economic, capital and/or financial condition of the Group.

In 2018, the Bank was not subject to any stress tests (neither in the EBA EU – wide stress test nor pursuant to the SREP).

<u>Draft of SREP Decision received by the Issuer on 5 December 2018</u>

On 5th December 2018 the Bank received from the Supervisory Authority a Draft of the Decision establishing Prudential Requirements, based on the supervisory review and evaluation process (SREP) conducted pursuant to Article 4(1)(f) of Regulation (EU) No 1024/2013 with reference date 31 December 2017 (the "**Draft SREP Decision**"). The letter is provisional, and the final release is expected in the first quarter of 2019, as a result of the SREP.

In its draft letter, the ECB sets prudential requirements for the Bank (BMPS), both quantitative (own funds) and qualitative, and points out some recommendations to the Bank and weaknesses / focus points that the Bank need to address. These have been represented in their main contents into the press release of 11 January 2019 "*Draft Srep decision confirms pillar 2 requirement level to 3% and reduces guidance to 1,3%*", which is incorporated by reference into this Prospectus. Although the Bank has planned actions (mainly already included in its Restructuring Plan), aimed at solving the weaknesses of the Group reported in this SREP Draft Decision, at the reference date of this Base Prospectus there is a risk that the Bank, for idiosyncratic or systemic reasons, is not able to adequately address in whole or in part the afore-mentioned weaknesses.

Moreover, with specific reference to the recommendation of a gradual increase in coverage of the stock of NPE, according to the Bank this request, to the extent it is not implemented, may in principle result in an increase in capital requirements for the next years. This risk may be mitigated: (i) by the Bank's ability to identify, in agreement with the ECB, an appropriate level of coverage of NPLs stock as at the end of March 2018, (ii) through the reduction of the Bank's NPLs stock, also as a result of the execution of the planned sales and (iii) considering that the increase in NPL provisions reduces one of the main risk factors on which the capital requirements of the next SREP decisions will be based.

(b) *Investigations of the ECB and the Bank of Italy and UIF*

The ECB and the Bank of Italy, 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.

For more information on inspection activities carried out by the supervisory authority please see " *Banca Monte dei Paschi di Siena S.p.A. – Major Events – ECB/Bank of Italy inspections concluded during the period 2015-2018*" of this Prospectus.

ECB activity inspection on internal models review (TRIM – 2939)

TRIM is a multiannual project, launched by the ECB in 2016 and expected to end in 2019, aimed at assessing compliance with the regulatory requirements of the internal models currently used by banks and their reliability and comparability.

From December 2017 to April 2018, within the context of TRIM the Group and the Issuer were 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. On 10 July 2018, the Bank received from the ECB the inspection assessment report setting out 19 findings in relation to which the Bank sent a letter providing for an action plan. The Issuer is waiting for the reply of the ECB.

Furthermore, with a letter dated 27 November 2018, the ECB informed the Bank that, within the context of TRIM, starting from 21 January 2019, an on-site inspection relating to the internal model on credit risk of the Issuer and the Group will be carried out with respect to parameters *Probability to Default, Loss Given at Default and Credit Conversion Factor*, in the context of the exposures called *Corporate – others*.

The internal models review (TRIM) may have also significant impacts on RWA; in particular, the introduction of the new definition of default (expected by 31 December 2020) and the introduction of specific models for the calculation of the LGD on the Defaulted Assets and the Expected Loss Best Estimate (ELBE) could entail a significant review of all the models on the Probability of Default (PD) and Loss Given at Default (LGD), with following variation of the capital requirements that, as at the date of this Prospectus, are not estimable. In such a case, it cannot be excluded that the Issuer could face a situation where it is required to carry out capital consolidation interventions.

Inspection activity of the Bank of Italy and the Financial Information Unit (Unità Informazione Finanziaria) (UIF) in the field of anti-money laundering.

In the field of anti-money laundering the results of the two inspections carried out in the period of May-June 2018 are not known yet.

In particular, with letter dated 8 May 2018, the Financial Information Unit ("**UIF**") carried out an inspection activity relating to the assessment of the procedures created to verify potential anomalies relating to the activity of the Issuer's clients.

On 5 June 2018, the Bank of Italy started an inspection on the Bank and Banca Widiba with the aim of verifying the compliance with anti-money laundering provisions.

For more information on these inspections please see *"Anti-money laundering Bank of Italy inspection"* of this Prospectus.

Inspection activity of the Bank of Italy in the field of usury

Starting from 6 June 2018, the Bank of Italy began an inspection aimed at verifying the suitability of the organisational structures to produce correct reports of TEGMs and to prevent the risks associated with violations of usury regulations. The assessment was completed in September 2018 and the Bank is waiting to receive the communication of the relevant results.

As at the date of this Prospectus, the Bank is not subject to further inspections or significant specific supervisory activities by the competent supervisory authorities, other than the one herein described.

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In light of the above, the Issuer, as at the date of this 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 authority, while others have been closed but are waiting for evaluation by the supervisory authority 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 which are being implemented.

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 manner and time provided 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 – in a prospective view – this may entail a negative evaluation on the outcome of the SREP process – which is still pending – and, as a consequence, the ECB may ask the Issuer for specific intervention measures and/or the application of higher capital requirements.

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*

In relation to matters entrusted by Legislative Decree No. 58 of 24 February 1998 (as amended, 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 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.

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It has to be noted that, although the Issuer has adopted, as at the date of this 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 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 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 impact 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 to retain 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 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 which might derive from the SREP 2018, with a potential negative impact on the business and the economic, capital and financial condition of the Issuer and/or the Group.

2.4 *Risks associated with the Group's exposure to Impaired Loans*

As at 30 September 2018, net loans to customers amounted to Euro 87.5 billion, substantially stable compared to Euro 86.4 billion as at 31 December 2017 (Euro 106.7 billion as at 31 December 2016). Within the aggregate figure, non-impaired loans to customers amounted to Euro 79.5 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 8.0 billion, respectively corresponding to 90.9 per cent. and 9.1 per cent. of total loans to customers

(88.0 per cent. and 12.0 per cent. as at 31 December 2017; 81.0 per cent. and 19.0 per cent. as at 31 December 2016).

As at 30 September 2018, Impaired Loans gross of value adjustments amounted to Euro 18.2 billion, down from Euro 26.9 billion, a decrease of 59.6 per cent. compared to the figure recorded as at 31 December 2017 equal to Euro 45.1 billion (down by 1.5 per cent. compared to 31 December 2016).

With reference to the various aggregate figures, the first nine months of 2018 recorded a decrease by Euro 24 billion of "Doubtful Loans", mainly due to the derecognition of the portfolio of non-performing loans (NPL Portfolio), a contraction of "Unlikely to Pay" by Euro 2.4 billion and of "Past Due Impaired Exposures" (Euro 0.1 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 2018, Impaired Loans net of value adjustments, amounted to Euro 8.0 billion, down by Euro 6.8 billion, with a 45.9 per cent. decrease, compared to the figure recorded as at 31 December 2017 equal to Euro 14.8 billion (down by 27.2 per cent. compared to 31 December 2016). The comparison between September 2018 and December 2017 highlights a reduction of the impact on loans to customers of net Doubtful Loans and of Unlikely to Pay equal to respectively 3.4 per cent and 5.5 per cent. compared to respectively 7.1 per cent and 6.5 per cent as at 31 December 2017. The data on Past Due Impaired Exposure is substantially stable. As at 30 September 2018, the coverage percentage of Doubtful Loans amounted to 68.7 per cent., decreased from 77.2 per cent. as at 31 December 2017 due to the derecognition of the transferred Impaired Loans which had been accounted for during the first nine months of 2018.

As at 30 September 2018, the coverage of Unlikely to Pay and Past Due Impaired Exposures is equal to 43.3 per cent. and 30.3 per cent., up compared to the figure recorded as at 31 December 2017 (respectively 40.7 per cent. and 25.6 per cent.) due to the application of the new impairment method provided for by IFRS9 which was applicable from 1 January 2018. As a consequence, the total coverage of Impaired Loans decreased from 67.2 per cent. as at 31 December 2017 to 56.1 per cent. as at 30 September 2018.

As at 30 September 2018, the Group recorded net value adjustments for credit risk for Euro 361 million, decreased by Euro 4,411 million compared to those recorded in the same period of the prior financial year, mainly due to adjustments recorded during 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 ECB 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.

It should be noted that the Restructuring Plan assumed the successful completion of the assignment of the NPL Portfolio, which was structured in more phases and was completed with the derecognition of the NPL Portfolio on 22 June 2018. Furthermore, the Restructuring Plan assumed 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 2017-2021 takes the advantages also of the effects connected to further assignments/reduction of small ticket and leasing positions classified as a non-performing loans with a global gross exposure of Euro 2.5 billion by 31 December 2018 (ii) the positions 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, of which Euro 2.5 billion was realised as of 30 September 2018 and (iii) the transfer of Unlikely to Pay receivables' for an overall exposure of around Euro 2 billion, in the period 2020-2021.

Finally, the evolution of the NPE ratio is further correlated (other than to the positive completion of the activities set out in the Restructuring Plan) with factors which are outside the control of the management such as the improvement of the reference macroeconomic environment.

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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 15 March 2018, the ECB published the addendum to the banks' guidelines on non-performing loans dated 20 March 2017 which supplements the guidelines on NPLs and set out the ECB expectations on the assessment of the level of precautional allocation for a bank with respect to non-performing exposures. In this context, since the Restructuring Plan does not consider the potential effects of the addendum (which has been subject to public hearing after the approval of the Restructuring Plan), starting from 2021, the Target SREP of the Bank could require additional capital pursuant to the provisions of the addendum and/or it might be possible that the Bank will not reach the targets of the Restructuring Plan due to higher coverage levels in relation to non-performing loans originated after 1 April 2018.

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 associated risks, reference is made to "*Risks associated with capital adequacy*" below.

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In addition, even if the assignment of the NPL Portfolio and the derecognition thereof have been 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 a potential negative impact on the business and the economic, capital and/or financial condition of the Bank and/or the Group.

2.5 *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 2018, loans to customers amounted to Euro 88,563 million, down by 2.7 per cent. compared to Euro 91,042 million as at 31 December 2017. Within the aggregate figure, performing loans to customers amounted to Euro 80,052 million and Impaired Loans to

Euro 8,511 million, respectively corresponding to 90.4 per cent. and 9.6 per cent. of total loans to customers (83.8 per cent. and 16.2 per cent. as at 31 December 2017).

As at 30 September 2018, Impaired Loans of the Group were equal to Euro 8,511 million, representing a decrease of Euro 6,287 million compared to 31 December 2017 (Euro 14,798 million) mainly as a consequence of the derecognition of the Impaired Loans transferred and the several transfers of Unlikely to Pay realising during the first semester 2018. In particular, as at 30 September 2018 (i) the Impaired Loans were equal to Euro 3.040 million compared to Euro 7,532 million as of 31 December 2017 (-59.6 per cent.), (ii) the Unlikely to Pay are equal to Euro 5,211 million representing a decrease compared to Euro 6,880 million as of 31 December 2017 (-24.3 per cent.) and (iii) the Past Due Impaired Exposures were equal to Euro 260 million representing a decrease compared to Euro 387 million as of 31 December 2017 (-32.8 per cent.).

As at 30 September 2018, exposures the subject matter of forbearance measures amount to Euro 6,176 million (of which Euro 4,018 million are impaired and Euro 2,158 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 2018 highlights an overall credit exposure to the first ten counterparties equal to Euro 2.7 billion.

From the analysis of the geographical distribution of the Group's customers as at 30 September 2018, we note how for the retail segment customers are mainly concentrated in Central (35.3 per cent.) and Southern (34.5 per cent.) regions; followed by North-east and North-west (respectively 16.7 per cent. and 13.5 per cent.). Similarly, for the corporate sector customers are mainly concentrated in the Central (35.2 per cent.) regions; followed by North-east and South (respectively 25.1 per cent. and 22.0 per cent.) and North-west (17.7 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 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 and 2017 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 credit underwriter 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:

- renegotiation of payment terms of an instalment loan;
- extension of a temporary credit line approaching maturity; and
- 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 historicisation 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 may entail increased Impaired Loans and related provisions as well as possible amendments to credit risk estimates, with a potential negative impact on the business and the economic, capital and/or financial condition of the Issuer and/or the Group.

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 potential negative impact 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 (as defined below) 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).

Large Exposures were comprised as follows:

(i) No. 9 positions as at 30 September 2018,

(ii) No. 11 positions as at 31 December 2017 and

(iii) No. 16 positions as at 31 December 2016.

The decrease of the weighted value as at 30 September 2018 is mainly due to the decrease of the risk activities in relation to certain groups of clients which as at 31 December 2017 were classified within the Large Exposure.

The decreased number of Large Exposures recorded as at 31 December 2017 and as at 31 December 2016 derives from the increase of own funds following the precautionary recapitalisation, implemented by the MEF in August 2017, which entailed the increase of the eligible capital and accordingly the threshold relating to the Large Exposure.

The dynamic of the operation with central counterparties influences, in significant way, the balance value of Large Exposures, which reached the highest point, with respect to the same period, in December 2016 with over Euro 37 billion which dropped to less than half at the end of 2017, for then going up again over Euro 21 billion in September 2018.

Finally, although risks associated with Large Exposures are periodically monitored at Group level, it should be noted that an excessive concentration of exposures to a sole counterparty, a small group of counterparties or groups of related counterparties may determine, in case of

deterioration of the related creditworthiness, negative impacts on the economic, capital and/or financial condition of the Issuer and/or the Group.

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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.

Crisis situation of credit markets and of the negative trend of the global economy may reduce families' available income and enterprises profitability and/or have a negative impact on banking customers' ability to fulfil their obligations. In addition, any future adverse economic change may entail further reductions of the value of collaterals and/or the impossibility to post further collaterals. Finally, the general macroeconomic condition, the negative trend of specific business sectors and the actions of supervisory authorities may entail further reductions of the value of the collaterals received by the Issuer and/or the Group.

In addition, it should also be noted 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 enabled the transfer of the responsibility for risk management of these positions to a specific chain of command, redirecting 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 both the entire 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 "*Banca Monte dei Paschi di Siena S.P.A. – Major Events – Recent developments – 2017 – SREP annual process*" of this Prospectus.

With respect to the compliance, reliability and comparability evaluation to regulatory requirements of the internal model currently used from the banks, the ECB launched different inspection activities (TRIM – Targeted Review of Internal Models). For a further description of such supervisory activities, reference is made to "Banca Monte dei Paschi di Siena S.P.A. – Major Events – Recent developments - ECB/Bank of Italy inspections concluded during the period 2015-2019 - ECB inspection activity in relation to the review of the internal models (TRIM-2939)" and to "Banca Monte dei Paschi di Siena S.P.A. – Major Events – Recent

developments – ECB/Bank of Italy inspections concluded during the period 2015-2019 – Internal Model Investigation – IMI 40" of this Prospectus.

In light of the above, even following the completion of the assignment of the NPL Portfolio, a further deterioration of credit quality compared to that already recorded during past financial years – with consequent increase in Impaired Loans and relating value adjustments which may entail negative impacts, even significant, on the economic, financial and capital condition of the Issuer and/or the Group cannot be excluded.

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 a potential negative impact on the business and the economic, capital and/or financial condition of the Bank and/or the Group.

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 abiding by 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 of 2016, 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 (as defined below) 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.

In 2017, a review was carried out aimed at measuring the effectiveness of the process of evaluation and credit disbursement of the 'Large Corporate' segment, which represents the Group's reference for the management and development of high standing corporate customers and its consistency with the classification standard adopted by the Bank.

There was a substantial level of adequacy and completeness of the preliminary investigation with a correct and exhaustive drafting of the proposals for the decision-making bodies: the verifications have in fact highlighted an adequate capacity to manage the origination phase (preliminary investigation, resolution and acquisition of guarantees). However, with regard to the phases of operational management and monitoring of individual credit practices, some areas of improvement have been detected. In addition, in continuity with the similar activities carried out during the previous financial year, the board of statutory auditors went directly to the network, continuing with the programme of verifications focused on the credit origination process, having regard to compliance with the fulfilments connected with the start of the preliminary investigation, the formalisation of guarantees (valuation) and the subsequent provision of credit lines to customers (disbursement). In addition, the cycle of verifications for 2017 has also extended the controls to the 'document management' process with the aim of verifying the management of the formalisation and conservation of the contractual documentation underlying the services provided to customers, with a particular focus on the 'Credit' and 'Investment Services' sectors.

These assessments began in the first half of 2017 and involved a significant sample of Territorial Departments (*Direzioni Territoriali Mercato* – "**DTM**") located within the territorial areas in which the Bank is operatively divided. In the second half of the year, this exercise was replicated at the same facilities, through specific follow-up activities, which revealed the overall improvement in the criticalities previously recorded, as well as a clear improvement in the main risk indicators.

In the first part of 2018 the board of statutory auditors concluded the first verification session at the network, carried out with the assistance of the internal audit function, in line with the annual planning agreed with the Chief Audit Executive Office. The supervisory structures referable to the Territorial Departments, the Credit Area Offices and the Departmental Departments Compliance and Controls and, for operational tests, the Branches and the Private Sampled Centres have been selected with regards to all the No. 5 territorial areas in which the network is divided.

The areas of investigation concerned, *inter alia*, the following contents:

- credit origination; and
- document management.

Even with some distinctions and the presence of areas of attention, an overall improvement trend was detected in all the fields of investigation.

The results of this activity are, in any case, subject to follow-up by the board of statutory auditors.

Within the monitoring activity conducted by the board of statutory auditors on the recommendation of the Joint Supervisory Team (JST), the one connected with ARGO 2, aimed at achieving the improvements linked with the findings highlighted by the ECB during the on-

site inspection of the loans portfolio conducted by the same supervisory authority during 2015 is noticed. These verifications testified the overall strengthening of credit risk safeguards obtained in particular with the restructuring of the underlying rules and processes. In fact, the regulatory framework, the operational processes and the IT supporting systems have been revised.

Although the remedy plan established in this regard by the JST foresaw its conclusion in 2016, the closure of some findings, although considered paramount also by the board of statutory auditors, was postponed to 2017. Therefore, during 2017 the board of statutory auditors continued its supervisory activity on the implementation of the remedies indicated by the ECB, by requesting, from time to time, the competent functions, to respect the timescales established and agreed, in any case, with the ECB.

However, due to the non-completion of the remediation plan by 2017, the commitment by the board of statutory auditors in monitoring the final implementation of ARGO 2 was significant also in the first part of 2018, bringing to the attention of the JST the further completion phases of the remedies and of those remedies for which there were some delays and on which the follow-up activities continued.

Also during the course of 2018, the activity of the board of statutory auditors related to the OSI 1238 inspection conducted by the ECB between the second half of 2016 and first months of 2017 on the 'assessment of the management and control system for credit and counterparty risks with reference to the retail, SME and corporate portfolio' was significant. In February 2018, the definitive results of the verification were disclosed and summarized in No. 9 findings. As in previous circumstances, also in this case the JST requested the close involvement of the board of statutory auditors (as well as the board of directors) in the implementation and monitoring of remedial actions. At the date of this Prospectus, the auditors were able to take note of the regular progress, as a whole, of the project activities carried out such intervention and remedy programme of the Bank has been named "**ARGO 3**". In particular, the board of statutory auditors acknowledged that the activities are in line with the planning and that all the project deliverables expiring on 30 June 2018 have been closed. However, the statutory auditors remain committed to monitoring the completion and definitive settlement of the findings whose deadline is scheduled for the end of 2018. For the sake of completeness, the board of statutory auditors noted that the requests underlying some of the findings of ARGO 3 reiterate or reinforce aspects already emerged and highlighted in the findings of ARGO 2.

2.6 *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 unexpected and expected payment obligations. 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, as highlighted in the SREP Decision 2017 notified by the ECB on 19 June 2017, BMPS implemented strategies, policies, processes and systems for the identification, measurement, management and monitoring of liquidity risk as well as improved its structural liquidity position (funding). Notwithstanding the above, the SREP Decision highlighted that 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 After the significant outflows of deposits on occasion of the failed perfection of the 2016 Transaction, deposits highlighted an increase after the Issuer's request to activate the precautionary recapitalisation and the granting of state guarantee over the issue of new liabilities. Specifically, from January to March 2017, the Issuer issued liabilities guaranteed by the Italian State for an overall nominal amount equal to Euro 11 billion, of which Euro 3 billion of securities due and redeemed on 20 January 2018, Euro 4 billion of securities due 25 January 2020 and Euro 4 billion of securities due 15 March 2020.

In this respect, it is highlighted that the precautionary recapitalisation provided a direct contribution to structural liquidity, in the course of 2017, for an initial amount of Euro 3.9 billion, disbursed by the MEF in subscription of the Capital Increase, reserved to the MEF, accompanied by the amount, again disbursed by the MEF in the context of the public offering for exchange and settlement for an additional amount of Euro 1.5 billion. Equally significant is the contribution to structural liquidity obtained from the assignment of NPLs for an amount higher than Euro 4 billion, deriving from the sale of the mezzanine notes and the junior notes issued by Siena NPL 2018 S.r.l. (respectively, the "**Mezzanine Notes**" and the "**Junior Notes**") and from the possibility that the Senior Notes will be sold on the market or used as collateral for financing transactions with other financial counterparties.

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

Furthermore, the Group will be subject to the 2019 ECB stress test in order to assess the banks' resilience to idiosyncratic liquidity shock (the so-called "*Sensitivity analysis of liquidity risk – stress test 2019 (LIST 2019)*"). Such results will be part of the wider SREP for 2019.

(a) *Liquidity indicators relating to the Issuer*

The main indicators used by the Issuer for the assessment of the liquidity profile are the Liquidity Coverage Ratio, the Net Stable Funding Ratio, and the 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 2018 was equal to 185.9 per cent., above the minimum regulatory requirement applicable for 2018, decreasing 13.6 per cent. compared to 31 December 2017, as a consequence of the decrease of the liquidity buffer which has not been completely counterbalanced by the decrease of net outflow.

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 (i.e. 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 2018 is equal to 110.6 per cent., stable compared to December 2017, equal to 110.0 per cent. As at 30 September 2018 (most recent available data since calculated on financial statement data), the Group's loan-to-deposit ratio amounted to 93.1 per cent. compared to 88.4 per cent. as at 31 December 2017 and 102.0 per cent as at 31 December 2016 compared to an Italian banking system average equal to 91.4 per cent as at 31 December 2017 and 89.6 per cent. as at 31 December 2016.

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 Montepaschi 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. As at 30 September 2018, in accordance with the results of the regulatory Additional Liquidity Monitoring Metrics (ALMM) deposit collection through unsecured channels amounted to approximately 69 per cent. of total collections, of which 11 per cent. were related to financial non-retail counterparties and 17 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 24 per cent. of total non-financial non-retail counterparties (corresponding to 6 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 comprising available sources on the "RTGS" account held with the ECB 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 2017, the counterbalancing capacity level amounted to Euro 21.1 billion (Euro 6.9 billion as at 31 December 2016) and the TTS under stress was equal to 136 calendar days (0 (zero) calendar days as at 31 December 2016). As at 30 September 2018, the operational

liquidity position recorded a level of counterbalancing capacity not used equal to Euro 185.5 billion and the TTS under stress was equal to 125 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 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 which significantly reduced liquidity supply sources for financial institutions, including the Group.

The 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.

The realisation of the Capital Enhancement completed in 2017 and the following securitisation transaction and derecognition of the NPL Portfolio completed in June 2018 allowed 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 in case of negative macroeconomic trend, 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. As at the date of this Prospectus, refinancing transactions outstanding with the ECB are equal to Euro 16,689 million and are the following: (i) TLTRO II launched on 23 June 2016, with maturity on 24 June 2020 for an amount equal to Euro 10,158 million and (ii) TLTRO II launched on 21 September 2016, with maturity on 30 September 2020 for an amount equal to Euro 6,531 million.

As at 31 December 2017, the Group's overall indebtedness to the ECB relating to refinancing transactions launched by the same Authority were equal to Euro 16,907 million of TLTROs. As at 30 September 2018, the Group's overall indebtedness to the ECB was equal to Euro 16,689 million of TLTROs.

The amount of cash and free assets eligible for the ECB was equal, as at 31 December 2017, to Euro 21,095 million and Euro 18.463 million as at 30 September 2018. 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 ECB, to the extent not committed by the Bank to other transactions) is mainly represented by government securities (Euro 13,866 million as at 31 December 2017 and Euro 12,512 million as at 30 September 2018).

The TLTROs will continue to represent, in the presence of financial instruments made available by the same ECB, 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 senior unsecured bond issues addressed to institutional investors, in financial year 2019, the Bank will redeem an aggregate amount of Euro 744 million while there were no maturities in 2018. 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 of which Euro 3 billion of securities became due and were redeemed on 20 January 2018, Euro 4 billion of securities is due 25 January 2020 and Euro 4 billion of securities is due 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.

In January 2018, the Issuer completed the issue of a fixed-rate coupon "Tier 2" subordinated bond with a 10-year maturity and a size of Euro 750 million.

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 a consequently negative impact, even relevant, on the business and on the economic, capital and/or financial condition of the Bank and/or the Group.

(d) *Reputational risk*

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 potentially negative media context, the Group may be subject to analogous pressures on its liquidity condition, with a potential negative impact, 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 government guaranteed securities (repos), amounting to around a nominal amount of Euro 4.25 billion at 31 December 2017. 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 impacts on the business and the economic, capital and/or financial condition of the Bank and/or the Group.

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.

Similarly, the "Funding Plan 2018" and the "Contingency Funding Plan 2018", both approved by the board of directors of the Issuer on 1 March 2018, have also been sent to the Joint Supervisory Team of the ECB which, to date, expressed no observations nor requested any supplement to such documents.

It cannot however be assured that the ECB will not require, at a later stage, further information or formalisations/corrective interventions, even substantial, on such plans determining a variation of the modalities and composition of the Bank's envisaged funding sources and the related costs.

It is furthermore provided that the "Funding Plan 2018" and the "Contingency Funding Plan 2018" may be subject to review by the Bank by the end of 2018, and, in such a case, 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 formalisations/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.

2.7 *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 "Financial activities valued at fair value affecting the overall profitability" accounting category. For further details on the Group's overall exposure to sovereign debt, reference is made to the 2016 Consolidated Financial Statement, the 2017 Consolidated Financial Statement, the 2018 First Half Financial Report and the 2018 Interim Financial Report (each as defined below), incorporated by reference into this Prospectus.

The Group is accordingly exposed, 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 impacts, even relevant, on the business and the economic, capital and/or financial condition of the Bank and/or the Group. In particular, 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 portfolio of "Financial activities valued at fair value affecting the income statement" and an increased negative value of the valuation reserves (specifically "*Fair Value Through Other Comprehensive Income*", the "**FVTOCI Reserve**") linked to the "*Financial activities valued at fair value affecting the overall profitability*" accounting category.

The FVTOCI Reserve, linked to 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 3.30 million as at 30 September 2018 (down in absolute terms compared to a negative value of Euro 5.56 million as at 31 December 2017) due to a +1 basis point movement in the Italian credit curve, i.e. there is a positive effect on the FVTOCI Reserve in case the spread narrows. The sensitivity to interest rates was instead negative by Euro 1.31 million as at 30 September 2018 (negative by Euro 1.92 million as at 31 December 2017) due to a +1 basis point movement in the rate curve so as there is a negative impact on the FVTOCI Reserve in case of increased interest rates.

Due to the aforementioned exposures, the Group recorded a negative FVTOCI Reserve (net of tax effect) equal to Euro 260.3 million as at 30 September 2018 (up compared to 31 December 2017 when it was negative by Euro 63.77 million).

The FVTOCI Reserve entailed a negative impact on the Bank's own funds considering that – as provided for by ECB Regulation EU 2016/445 of 14 March 2016 – starting from 1 January 2018, profits and losses not realised and relating to the exposures to the central administration classified in the accounting category "*Other Comprehensive Income*" are fully included in CET1 capital.

Amongst the main risk factors that could entail a variation of capital requirements the spread between BTP and Bund should therefore be noted, the increase of which entails a decrease of capital reserves (FVTOCI Reserve) and accordingly a decrease of the regulatory capital.

In light of the above, the potential deterioration of the Republic of Italy's creditworthiness and a further worsening of the sovereign debt situation could have significant impacts on the recoverability and valuation of the sovereign debt securities held, with consequently significant negative impact on the economic situation of the Issuer and the Group and the ability of the Issuer to comply with capital adequacy requirements, which could trigger the adoption of further capital enhancement measures.

Given the sensitivity of the FVTOCI Reserve to the credit spread of the Republic of Italy, the widening of Italian government bonds' yields recorded in 2018, may determine an increase, even material, in the FVTOCI Reserve.

In the context of the 2017 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, is 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 BMPS' Restructuring Plan 2013-2017 and it expects to realise a further progressive reduction in line with the provisions of the Restructuring Plan. It should be noted that the government securities portfolio accounted as "*Financial activities valued at fair value affecting the overall profitability*" and equal to around Euro 12.5 billion as at 30 September 2018, (compared to Euro 12.9 billion as at 31 December 2017) is already in line with the level required for by the Restructuring Plan. 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, being forced to assign Italian government securities also in unfavourable market conditions, could entail negative impacts on the business and the economic, capital and/or financial condition of the Bank and/or the Group. 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 2,256 million as at 30 September 2018 (down compared to Euro 2,394 million recorded as at 31 December 2017). 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 impacts, 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 on government securities, expressed in terms of net protection sales, for a nominal value of Euro 2,189 million as at 30 September 2018, up compared to Euro 1,759 million recorded as at 31 December 2017. 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 a consequently negative impact, even relevant, on the business and the economic, capital and/or financial condition of the Bank and/or the Group.

2.8 ***Risks associated with the application of Burden Sharing in the context of 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**"), and the application of the Bank for extraordinary and temporary support for access to the so-called "precautionary recapitalisation", as provided for by article 32, subsection 4 of the BRRD, 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 certain subordinated notes and other

subordinated liabilities (respectively, the "**Burden Sharing Notes**", the "**Burden Sharing**" and, together with the Capital Increase, the "**Capital Enhancement**").

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 Burden Sharing Notes into newly issued shares (the "**Burden Sharing Shares**" or "**Shares**"), according to the percentage of the relevant nominal value.

The Burden Sharing Decree also provided for that – under art. 22, paragraph 4 of Decree 237 – for the contractual or non-contractual clauses executed by the Issuer over 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 (floating rate equity-linked subordinated hybrid preferred securities (the "**FRESH 2008**" for more information about the agreements executed in connection with FRESH 2008, please refer to "*Banca Monte dei Paschi di Siena S.P.A. – Major Events – Recent developments – 2008-2012*" of this Prospectus).

Therefore, on 5 October 2017, the Bank's board of directors resolved, *inter alios*, to:

(a) apply Decree 237 also to the FRESH 2008 transaction;

(b) inform the DG Comp and the Bank of Italy about the adopted resolution, starting the relevant process for the authorisation to classify the amount of FRESH 2008 issue from Additional T1 to Common Equity Tier 1; and

(c) send a letter to inform JPM (as defined below) about the implementation of Decree 237 and consequent termination of both the usufruct agreement and the company swap agreement, entered into in the context of the FRESH 2008 transaction (the "**Usufruct Agreement**" and the "**Company Swap Agreement**").

On 20 October 2017, furthermore, the Bank sent two letters: i) one to JPM in relation to the application of Decree 237, wherein the Issuer specified it deemed as terminated both the usufruct agreement and the company swap agreement, and ii) by the other letter the Bank communicated that, as at 30 June 2017 – as also shown in the interim financial report as at 30 June 2017 – there had occurred a capital deficiency event as provided for in the FRESH 2008 terms and conditions (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.

As a consequence of the application of Decree 237 to FRESH 2008, as resolved by the Bank, and in light of the above, some FRESH 2008 holders summoned the Bank, the company Mitsubishi UFJ Investors Services & Banking Luxembourg SA (which had replaced the Bank that issued the Bank of New York Mellon Luxembourg securities), the English company J.P. Morgan Securities PLC and the American company J.P. Morgan Chase Bank NA (which executed a swap agreement with the loan security issuer, "**JPM Chase**") before the Court of

Luxembourg, asking to (i) ascertain that Decree 237 does not apply to the FRESH 2008 holders, (ii) as a consequence, obtain a declaration that the aforementioned securities cannot coercively be converted into shares and that the above securities are still valid and effective in accordance with their terms and conditions, as governed by the law of Luxembourg and (iii) eventually, to ascertain that BMPS shall not be entitled, lacking any conversion of the FRESH 2008, to obtain from J.P. Morgan Securities Ltd ("**JPM**") payment of Euro 49,930,326.74 as damages suffered by the holders of FRESH 2008. The Court of Luxembourg has not set a date for the hearings yet.

For the sake of completeness, it should be also noted that, following the start of the abovementioned proceeding, on 19 April 2018 BMPS brought an action before the Court of Milan against J.P. Morgan Securities Ltd, J.P. Morgan Chase Bank N.A. London Branch, as well as against the representative of FRESH 2008 holders and Mitsubishi UFJ Investors Services & Banking (Luxembourg) SA in order to obtain a declaration stating that the Italian Court shall have exclusive jurisdiction over the termination (if any) of the Usufruct Agreement and over the Company Swap Agreement executed by the Bank with the first two defendants as part of the 2008 capital increase. As a consequence, the Bank asked: (i) a declaration of ineffectiveness of the Usufruct Agreement and of the Company Swap Agreement – from which arise obligations of payment in favour of JPM and JPM Chase by virtue of the entry into force and application of Decree 237; (ii) a declaration of ineffectiveness and/or termination and/or expiration of the Usufruct Agreement or, subordinately (iii) a declaration of occurred termination of the Usufruct Agreement due to the capital deficiency event of 30 June 2017. The first hearing was held on 18 December 2018 and the Judge, deeming existing the prejudicial issue raised by the defendants in relation to the jurisdiction and considered the existence of a dispute with the same petitum and legal issue pending before the Court of Luxembourg, has granted the parties time limits to replicate against the ritual objections and has adjourned the hearing to 16 April 2019 to discuss the controversial issue. For more information on the state of this dispute, reference is made to section "Banca Monte dei Paschi S.p.A. – Legal Proceedings" of this Prospectus.

In the event that, following the above-mentioned proceedings, 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 the FRESH 2008, in the event 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 from a prudential standpoint, the FRESH 2008 transaction would not fail and it should continue being qualified as Additional Tier 1, as opposed to the representation set out in the Restructuring Plan.

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 Tier1 equal to Total Capital Ratio.

Such circumstance, in addition to an impact in terms of capital adequacy – for further information on which reference is made to "Risk associated with capital adequacy" above – could also have a negative impact on the realization of the Restructuring Plan or, however, lead to the need of its review.

2.9 ***Risks deriving from judicial and administrative proceedings***

As at the date of this 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 Burden Sharing.

The 60 claims brought by former holders of notes subject to Burden Sharing are included in the Bank judicial proceedings relating to investment services activities. In such proceedings the relevant plaintiffs are claiming the violation of the general principles set forth by the Consolidated Finance Act and the general principles of correctness, transparency and duty of care with respect to the sale of such securities.

As at 30 September 2018, the overall petitum in relation to civil proceedings of the Group was equal to Euro 4,555 million of which approximately Euro 3,373 relating to the proceedings for the ordinary activities of the Issuer and approximately Euro 764 million for the civil proceedings relating to the suits brought by the shareholders in the context of 2008, 2011, 2014 and 2015 capital increases, approximately Euro 606 million in relation to threatened litigations brought against the Issuer relating to the same capital increase transactions and approximately Euro 118 million with respect to requests brought by the civil claimants, where quantified, relating to criminal proceedings no. 29634/14 and no. 955/16 which the Issuer is part of (for further information, please see Section "Legal Proceedings", respectively, paragraphs "Disputes deriving from ordinary business" and "Civil actions instituted by shareholders in the context of the 2008, 2011, 2014 and 2015 capital increases" of this Prospectus). The overall petitum for tax proceedings of the Group is equal to approximately Euro 130 million for taxes and sanctions while the overall petitum relating to the labour proceedings is equal to Euro 113.9 million (including the labour proceedings brought by certain employees of Fruendo S.r.l.).

In light of the estimates made on the risks of adverse outcome in the aforementioned proceedings, as at 30 September 2018, "legal disputes" included under the item provision for risks and charges, amounted to Euro 574.3 million, comprising claw-backs for Euro 61.9 million and civil disputes for Euro 512.4 million of which Euro 542.2 million derived from judicial proceedings associated with ordinary business. Furthermore, as at the same date, the provision for risks and charges includes tax disputes for Euro 33 million and labour disputes for Euro 34.4 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 impacts, 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 a potential negative impact 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 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 a consequently potential negative impact 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 detailed information of which see "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 are 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 and subsequent to the request as civilly liable parties of the Banks MPS, Nomura and 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. As of the date of this Prospectus, civil plaintiffs that appeared against the Bank were in aggregate around 1,243 and the overall petitum, where quantified, was equal to Euro 42 million.

(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, Fabrizio Viola and Paolo Salvadori (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 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 no. 231/2001, has been combined with the proceeding pending against the natural persons. The judge 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.

At the hearing held on 17 July 2018 2,243 civil claimants joined in the proceedings. Some of them formally asked to summon the Bank as the entity liable for damages, while most of them merely requested that their clients benefit from their participation in the proceedings where the Bank was already appeared as civil liable party. Some civil claimants joined in the proceedings against the Bank seeking a declaration of liability under Legislative Decree no. 231/2001. At the end of the hearing, the Court of Milan adjourned the case to the hearings of 16 October 2018, 6 November 2018, 13 November 2018 and 19 November 2018.

The hearing scheduled to discuss the civil actions brought as part of criminal proceedings was duly held on 16 October 2018 with a total of 2,243 civil claimants joined in the proceedings already during the previous hearing held on 17 July 2018, plus further 165. The defendants' and the Bank's counsels have claimed that the latter have joined in the proceedings beyond expiry of the relevant terms. At the hearing held on 6 November 2018, the Panel declared the exclusion from the proceeding of certain civil parties that, consequently, amounted to 2,272, ordering the extension of the proceeding between the Bank and the new civil plaintiffs admitted without further formalities and rejecting the request for joining the proceedings by CONSOB, Bank of Italy and Ernst & Young as civil responsibles.

By order issued at the hearing held on 19 November 2018, the Court rejected the claim for lack of competence previously raised by the defending counsels and, consequently, the discussion of the case started and the next hearing has been scheduled on 18 March 2019, reserving a decision with respect to the request of a conservative seizure against Mr. Profumo and Mr. Viola raised by certain parties.

The *petitum* relating to this proceeding, where quantified in connection with the filing of damaged civil parties, was approximately equal to Euro 76 million. By order issued at the hearing held on 19 November 2018, the Court rejected the claim for lack of competence previously raised by the defending counsels and, consequently, the discussion of the case started and the next hearing has been scheduled on 18 March 2019, reserving a decision with respect to the request of a conservative seizure against Mr. Profumo and Mr. Viola raised by certain parties.

The *petitum* relating to this proceeding, where quantified in connection with the filing of damaged civil parties, was approximately equal to Euro 76 million.

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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 this 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 most 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 an impact under a reputational point of view for the Bank and/or the Group, as well as entail a liability under the Legislative Decree No. 231/2001. For further information, reference is made to "*Risks associated with the organisation and management model pursuant to Legislative Decree No. 231/2001*" below.

(a3) Risks deriving from sanctioning procedures

Also there are 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 "*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 AG, 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 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 allegations analogous 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*. The Bank challenged these sanctions but paid up the sanction in its capacity as person joint and severally liable, starting the relevant recourse activities (for more information on such sanctioning procedures, reference is made to "*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 this Prospectus, 30 proceedings with compensatory aims have been initiated before different Courts. 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 764 million of which Euro 688 million referred to four principal actions.

Furthermore, as at the date of this Prospectus, various complaints have been filed individually by investors – through consumers or legal associations – 124 of which, on a total amount of 834, have taken part into the claim initiated by Marangoni Arnaldo (as described under "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 654 million of claimed amounts, where quantified, associated with alleged losses incurred linked to allegedly inaccurate disclosure contained in prospectuses and/or financial statements and/or price sensitive information disseminated by BMPS from 2008 to 2011. 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 through two professionals and the ADUSBEF (*Associazione Difesa Utenti Servizi Bancari e Finanziari*) – 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 as 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 591 million as at the date of this Prospectus.

In addition, as at 30 September 2018, there were also 53 threatened litigations relating to the 2014-2015 capital increases for a total requested amount equal to approximately Euro 16 million (and, therefore, overall equal to Euro 606 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 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 impacts, 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 a consequently potential negative impact on the business and the economic, capital and/or financial condition thereof.

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

In light of the estimates made about the risk of unfavourable outcome in the cases under this risk factor, as at 30 September 2018, 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 574.3 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 are against some members of the current management, are listed under "*Banca Monte dei Paschi S.p.A. – Legal Proceedings – Sanctioning procedures*" of this 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 11 most important Italian banks, among which was 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 from 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 No. 206/05) in the sale thereby of investment diamonds. On 27 April 2017, the AGCM extended such proceedings to BMPS and another bank. With a communication dated 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 No. 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 TAR of Lazio, provided that the payment deriving from such measure was executed by BMPS on a timely basis, making use of a fund risk set out in advance for this specific purpose. As a consequence, BMPS received some claims from its clients, in light of which a negative impact on the future economic and financial results of BMPS cannot be excluded.

BMPS had previously entered with DPI into a customer referral agreement, and AGCM held that the bank was actively involved in the promotion and sale of investment diamonds. The proceedings ended with the decision taken by AGCM during the hearing held on 20 September 2017 and notified to the parties on 30 October 2017. AGCM held that the breaches the parties had been charged with had actually been committed, and sentenced BMPS to pay a fine of Euro 2 million. The Bank paid the fine within the relevant terms and challenged the decision before the TAR of Lazio; at the hearing held on 17 October 2018 the Court reserved its decision. Meanwhile, the Bank has taken action to reimburse the customers previously referred to DPI, who have purchased diamonds from the latter and intend to exit from their investment. With decision published on 14 November 2018, the TAR of Lazio rejected the appeal of BMPS and confirmed the AGCM sanctions; the Bank is evaluating the legal ground of the events to determine the best approach to be followed.

For the sake of completeness, it is highlighted that, with reference to such events, a criminal proceeding for fraud before the Milan Court is currently pending. In such context the Bank has been notified with an exhibition order and a decree of computer search and seizure.

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.

2.10 ***Risks associated with assignments of Impaired Loans***

As part of its typical business, the Issuer carried out credit assignment transactions. For more information on the most significant ones, reference is made to the 2016 Consolidated Financial Statement, the 2017 Consolidated Financial Statement, the 2018 First Half Financial Report and the 2018 Interim Financial Report (each as defined below), incorporated by reference into this Prospectus.

Without prejudice to what is provided in the Restructuring Plan, in the context of the assignment of the NPL Portfolio and the relevant derecognition, it has to be noted that the Issuer may find itself having to resort to new Impaired Loan assignment transactions in respect of a possible further deterioration of credit quality, 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 a consequently negative impact on the economic, capital and financial condition of the Issuer and the Group.

Specifically, the credit assessment in the financial statements – including loans that are 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 what was 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 Bank's 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 dedicated to the recovery activity) that 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 impact, 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 this respect, it should be further specified that among the Commitments of the Restructuring Plan there 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".

2.11 *Risk associated with the results of the financial years ended on 31 December 2017, 31 December 2016 and the period ended on 30 September 2018*

In order to compare the economic data for the first nine months of 2017 with those related to the first nine months of 2018, please note that the items affected by the application of IFRS 9 and IFRS 15 were not reclassified, but only posted based on the new items specified in the Bank of Italy's Circular no. 262, as most recently supplemented by the 5th update of 22 December 2017 (as amended at any relevant time, the "**Circular 262**"). The specific provisions of IFRS 9, IFRS 15 and IFRS 1 do not indeed envisage any mandatory restatement of data to be compared in the financial year in which the new principles are applied for the first time.

As at 30 September 2018 the Group achieved an intermediation margin of Euro 2,475 million, down 4.3 per cent. with respect to 30 September 2017, mainly due to the reduction in interest

margin, net fees and net revenues from trading activities. The changes in revenues were influenced by the trend in interest margin, equal to Euro 1,312 million (-4.5 per cent. as compared to the same period of the previous year), which was mainly affected by the decrease in interest-bearing assets, especially loans (reduction in average volumes and in the relevant yields). This reduction was only partially mitigated by the decrease in interest payable, as a consequence of the lower costs incurred for bank accounts and term deposits and the reimbursement of bonds with more unfavourable terms (including Burden Sharing Notes). Net fees for the first nine months of 2018, equal to Euro 1,163 million, were down 4.1 per cent. as compared to the final data posted for the same period of 2017, as a consequence of both the lower revenues from asset management and the lower fees obtained in such period from payment services (debit and credit cards) further to the assignment of the merchant acquiring business on 30 June 2017. As at 30 September 2018, dividends, similar proceeds and profit (loss) from shareholdings, down by Euro 13.6 million as at 30 September 2017, amount to Euro 55 million, mostly consisting of the AXA-MPS contribution. Net revenues from trading and financial assets/liabilities, valued at amortised cost, and the corresponding fair value posted in the profit and loss account as at 30 September 2018 are equal to Euro 6 million, down as compared to the same period of the previous year (Euro 571 million), which included the profit from the Burden Sharing. An analysis of the main aggregate data revealed a reduction in revenues from the trading activity as compared to the same period of the previous year. However, such revenues have increased since the quarter ended on 30 June 2018, in spite of having been affected by the trend of the BTP-Bund spread; the net loss of the other assets and liabilities, posted at fair value in the profit and loss account, has increased, which may be ascribed to the net loss of assets/liabilities mandatorily valued at their fair value; as at 30 September 2018 the revenues from assignment/repurchase, equal to Euro 60 million, have decreased by Euro 491.8 million from the same period in 2017, which had been affected by the Burden Sharing.

As at 30 September 2018 the adjustments due to credit risk of financial fixed assets measured at amortised cost and of financial fixed assets measured at fair value impacting on the overall profitability have dropped to Euro 368 million, from Euro 4,835 million as at 30 September 2017 (-92.4 per cent.), which included credit adjustments made on the non-performing loans assigned after adjustment to their realisable value. Operating costs (Euro 1,154 million) were down 8.9 per cent. for the same period in the previous year. This change was mainly influenced by the reduction (i) in personnel costs (mainly related to staff reduction, firstly the 600 redundancies as part of the Fondo di Solidarietà on 1 May 2017 and another 1,200 on 1 November 2017), (ii) in administrative costs (structural reduction of costs), (iii) in net provisions for risks and charges, commitments and guarantees issued and net adjustments to the value of tangible and intangible assets. There was a decrease in net operating income equal to Euro 3,940 million.

As at 30 September 2018, the Group posted a net profit of Euro 379 million, including the capital gain achieved by assigning the Issuer's servicing platform for non-performing loans (Euro 50 million) and the partial reassessment of DTAs from tax losses (Euro 53 million).

In such respect, it cannot be ruled out that the future results of the Issuer and/or the Group might be adversely affected by general and domestic economic conditions, as well as by the economic conditions in the entire Euro Area, by the trends in financial markets and by compliance with some Commitments set out in the Restructuring Plan (personnel reduction, further assignment of bad debts, run-off of foreign subsidiaries). For more details on: (i) the risks related to the Restructuring Plan, please refer to paragraph "Risks associated with the

failed realisation of the Restructuring Plan" above, (ii) the risk related to loans becoming non-performing, please refer to paragraph "Credit risk and risk of credit quality deterioration" above, and (iii) the risks related to the assignment of non-performing loans please refer to paragraph "Risks associated with the Group’s exposure to Impaired Loans" above.

As at 31 December 2017 the Group posted a net loss of Euro 3,502 million. With respect to revenues for such financial year, the Group achieved an intermediation margin of Euro 3,920 million, down 6.9 per cent. on the previous year, due to the reduction in interest margin and net fees, partially set off by a growth in net revenues from trading and financial assets/liabilities (which benefited from the positive effects of Burden Sharing). The interest margin, equal to Euro 1,776 million (-11.3 per cent. since 31 December 2016) was mainly affected by the decrease in interest-bearing assets, especially loans to customers (reduction in average volumes and in the relevant yields). This reduction was only partially mitigated by a reduction in interest payable, as a consequence of the lower costs incurred for customer deposits, the expiry of bonds having more unfavourable terms and the effects of Burden Sharing. Net fees for 2017, equal to Euro 1,564 million, down 15.0 per cent. on 2016, were influenced by the cost of the guarantee on government issues, by the arrangement fees related to the securitisation transaction and by the assignment of the merchant acquiring business on 30 June 2017. Operating costs, equal to Euro 3,293 million, were up 8.0per cent. on 31 December 2016, mainly due to the following variables: (i) costs related to the redundancy scheme agreed with the Trade Unions on 3 August 2017; (ii) expected reorganisation costs for the closing down of branches; (iii) costs for the securitisation of non-performing loans and for the overall transaction whereby the recovery and multiannual servicing platform for the management of non-performing loans was outsourced to Quaestio Cerved Credit Management S.p.A.; (iv) higher provisions posted against legal risks; and (v) lower contributions paid to the National Resolution Fund (as defined below). Net value adjustments for non-performing loans, other assets available for sale and other financial transactions were equal to Euro 5,460 million, as compared to Euro 4,501 million in the previous year. The aggregate amount includes (i) approximately Euro 4 billion as net adjustments recorded since the start of the year on the amount of assigned non-performing loans, after adjustment to their realisable value, plus ancillary charges set out in the agreement with Quaestio Capital Management SGR S.p.A. ("Quaestio SGR"); (ii) Euro 170 million as recovery costs in connection with the multiannual servicing agreement entered into with Quaestio Cerved Credit Management S.p.A. for the outsourcing of part of the non-performing loans of the Group; (iii) Euro 84 million for depreciation of the stakes in Fondo Atlante, Banca Popolare di Spoleto S.p.A. and of the quota held in the Voluntary Scheme (as defined below). The operating loss after taxes also includes the capital gain achieved through assignment of the merchant acquiring business to CartaSi (Euro 524 million) and the partial reassessment of DTAs from tax losses (Euro 572 million), accrued and not recorded in previous years, pursuant to the rules introduced by Law Decree no. 50 of 24 April 2017 ("L.D. 50/2017") which envisaged a reduction in the EGS (as defined below). For more details on how DTAs and the relevant risks have been accounted for, please refer to paragraph "Risks relating to DTAs" above.

In order to provide a complete overview of the Bank's position, please be informed that the Bank's share capital was increased in August 2017 by an overall amount of Euro 8,327 million, through the conversion of Burden Sharing Notes into ordinary shares for a value of Euro 4,472 million, and through the subscription by the MEF of a number of ordinary shares for a value of Euro 3,854 million. During the extraordinary shareholders' meeting held on 18 December 2017 the Bank, taking into account (i) the balance sheet as at 30 September 2017 and the loss for such period, equal to Euro 2,506 million, (ii) previous losses for Euro 2,324 million carried

forward by resolution taken by the shareholders' meeting on 24 November 2016, and (iii) capital adjustments for Euro 534 million, decided to balance the overall loss of Euro 5,364 million reducing the share capital by the same amount.

As a consequence of the above, the Bank's share capital is equal to Euro 10,329 million.

2.12 *Risks associated with the failed distribution of dividends*

The ECB, in its decision of 25 November 2015, reconfirmed by SREP Decision 2017 dated 19 June 2017, 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 is withdrawn; accordingly, until the ECB decides to remove this prohibition, the Issuer may not proceed with the distribution of dividends, despite the presence of profits for the period being 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 has a CET1 and a Total Capital ratio higher than a predetermined level in respect of the SREP thresholds as set periodically by the ECB in order to promote the capitalisation of the dividend not distributed. Accordingly, the Bank is required to adopt 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 Internal Capital Adequacy Assessment Process ("**ICAAP**").

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.

In financial years 2017 and 2016, 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 a consequently negative impact on the return on the investments in the Issuer shares.

Finally, the lack of profits and reserves available for distribution could negatively affect the Issuer's capitalisation considering that such circumstances do not trigger the recapitalisation of the Issuer in accordance with the applicable Italian laws and regulations.

2.13 *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 2017, 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 4,740 million, down compared to Euro 5,786 million as at 31 December 2016.

As at 30 September 2018, the Group's exposure to OTC was equal to Euro 4,546 million, substantially in line with the exposure as at 31 December 2017; as at the same date the impact of the hedging derivatives compared to the trading derivatives was equal to 5.6 per cent..

The OTC derivative portfolio is comprised almost in its entirety within level 2 of the fair value hierarchy and shows no specific illiquidity risk profiles.

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 not fulfil its obligations or to default before the maturity of the relevant agreement. Therefore, it might not be excluded that the potential non-performance of the obligations undertaken pursuant to the derivatives contracts by the counterparties or the realisation of the relevant collateral for a value lower than the secured payment obligation could have a negative impact on the economic and financial situation of the Issuer and/or the Group.

2.14 ***Risks associated with possible aggregations***

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 that financial soundness is restored or competition is 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 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.

2.15 *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 capital, 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 impacts, 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 2018 the sensitivity of the banking portfolio, meant as a variation of the economic value produced by the movement in interest rates, was equal to Euro +210.84 million for a parallel movement of +100 basis points in the rates curve, while it was equal to Euro +175.48 million for a shift of +100 basis points as at 31 December 2017. For management purposes, market risk is monitored using a 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 2018, 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 10.48 million with a trend influenced by the high volatility of the Italian spread between May 2018 and June 2018, which resulted in new loss scenarios. The average VaR registered during the financial year and updated as at 30 September 2018 was equal to Euro 6.88 million, while during financial year 2017, the average VaR had been equal to Euro 6.98 million. As at 30 September 2018, the relating capital requirements for supervisory purposes were equal to Euro 230.36 million (as at 31 December 2017 they were equal to Euro 199.41 million).

In the context of the SREP 2017, in relation to interest rate risk of the banking portfolio some weakness areas have been underlined on the adoption of the behavioural models contributing to the positioning of the Group.

Therefore, during 2017, the Group improved its behavioural models for on demand items with a relevant operational use starting from the *Risk Appetite Framework* ("**RAF**") 2018 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 2018 amounted to Euro 3,165 million, down by 5.0 per cent. compared to Euro 3,332 million as at 31 December 2017. As at the same date, the negative fair value of trading derivatives amounted to Euro 1,304 million overall down by 17.2 per cent. compared to Euro 1,574 million as at 31 December 2017.

As at 30 September 2018, the credit valuation adjustment value was equal to Euro -34.3 million (Euro -45.8 million as at 31 December 2017).

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 2018, the Group's exposure to repos amounted to Euro 4,271 million, recording a 21.2 per cent. decrease compared to the level of Euro 5,424 million at the end of December 2017. As at 30 September 2018, instead, the exposure to reverse repos amounted to Euro 12,559 million, recording an increase equal to 22.7 per cent. compared to the value of Euro 10,237 million as at 31 December 2017.

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, as well as illiquid securities coming from its own securitisations it takes 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 2007-2008 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 time, manner and size sufficient to cover 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 related collaterals (if any) at values lower than those expected, may cause negative impacts 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 competencies 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 valuation of such derivative instruments, with a potential negative impact 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 certain geographical areas or in respect of a certain business sector, in case of deterioration of the related creditworthiness, may have a negative impact on the economic, capital and/or financial condition of the Bank and/or the Group.

2.16 ***Risk management***

The Group is highly focused on the identification, monitoring, measurement and control process of risks.

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

The risk appetite process is structured so as to be consistent with the ICAAP and Internal Liquidity Adequacy Assessment Process ("**ILAAP**") 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 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.

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. In this context, the board of directors of the Bank defines the Risk Appetite Framework (RAF) for the Group and it approves at least annually the 'Group Risk Appetite Statement'(RAS). The Risk Appetite Statement sets out annually a series of risk/revenue objectives and, simultaneously, a system of limits, which in case of exceeding will determine the start of some procedures of escalation intended to undertake the necessary managerial measures.

- 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;

- 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;

- 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 and monitors, also prospectively, the overall dynamic of the risks, both in ordinary and stress conditions, and the overall compliance with the limits assigned to the various responsibility levels;

- the finance and liquidity committee of the Group 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 committee is structured in two separate offices (Credit and Strategies). The Credit office resolves upon the perimeter of the significant risks monitoring and operational plafond, the assignment of the plafonds Paese on the basis of the "matrix" set out by Foreign Credit Policies office and on performing and non-performing credit matters: it gives its opinion on the credit procedure. The Strategies office gives its opinion on the proposals relating to performing credit policies and strategies verifying the commercial sustainability and the consistency with the risk appetite; it gives an opinion on the annual proposal relating to the non-performing credit strategies; it resolves upon the risk adoption, mitigation and monitoring rules, performing and non-performing, and on the parameters for the classification and valuation of the credit portfolio.

The Risk Management office, *inter alia*, is in charge of (i) monitoring the overall functioning of the risk management system; (ii) verifying the capital adequacy in the context of ICAAP process and the liquidity adequacy in the context of ILAAP process; (iii) participating in the set up and assessment of the Risk Appetite Framework; (iv) defining the strategic target on the receivables portfolio; (v) ensuring to adequately report the top management of the Group.

The Group falls within the Italian banks subject to the ECB Single Supervisory Mechanism. The Group continues its dialogue with the Joint Supervisory Team ECB-Bank of Italy.

For 2018, the board of directors of Banca Monte Paschi di Siena S.p.A. approved the "Group Risk Appetite Statement 2018" ("**RAS**") set out on the basis of a key risk indicators defined at a Group level, *Legal Entity and Business Unit*, considering, *inter alia*, the results of the SREP Decision 2017. Some figures are not in line with the risk propension expressed by the board of directors for 2018, in respect of which the actions necessary to be consistent with the targets have been set out.

Indeed, with reference to the end of 2018, the consistency with the regulatory limitations would be granted – without considering a further significant increase of the Italian spread – from the realisation of the actions set out in the Restructuring Plan along with the derisking actions in relation to the commercial and financial portfolio, in light of the weak market demand for Tier 2 securities.

The findings of previous SREP 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 has already undertaken 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. This review closed in January 2017 and was formalised by sending, on 28 February 2017, the related "follow-up" letter.

However, (i) 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, or (ii) should the Bank be notified with requests of the supervisory authority in the context of the SREP process to comply with higher Pillar II requirements compared to current ones, (iii) notwithstanding the existence of the aforementioned internal procedures aimed at identifying

and managing risk, should the Group's structures not be able to handle such risks in carrying out certain activities, exposing the Bank to unexpected or unquantified risks, the Bank and/or the Group may incur losses, even relevant, with a potential negative impact on the business and the economic, capital and/or financial condition of the Bank and/or the Group. Finally, it cannot be excluded that the review of the internal models and procedure could become necessary in case of changes in the relevant laws and regulations.

2.17 *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 finance companies, with a 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 potential negative impacts on the business and the economic, capital and/or financial condition of the Bank and/or the Group.

Among the debt restructuring transactions which are relevant for the Issuer, it should be noted that the Issuer holds interests in the share capital of Nuova Sorgenia Holding S.p.A.. As at 30 September 2018, the Group's overall credit exposure to the Sorgenia group was equal to Euro 241 million (Euro 220 million by cash and Euro 21 million by accrual), in addition to a portion of the convertible bond issued by Sorgenia S.p.A. in 2015, equal to Euro 44.2 million, a portion of the bond convertible into equity financial instruments issued by Sorgenia Power S.p.A. in 2017, equal to Euro 73.6 million and equity financial instruments issued by Nuova Sorgenia Holding S.p.A. for Euro 88.4 million.

Furthermore, certain entities of the Sorgenia group entered into restructuring agreements with the Issuer. As at the date of the Prospectus, there is no certainty that the Sorgenia group will be able to fulfil the undertakings given in the context of such restructuring agreements. Should 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 exposures to the Sorgenia group.

Again, among the 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 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.

2.18 ***Risks associated with the ownership structure***

As at the date of the Prospectus – following the execution of the capital enhancement and precautionary recapitalisation measures – the MEF holds 68.247 per cent. of the Bank's share capital, and, accordingly, it holds by law control over it.

Furthermore, it has to be considered that the precautionary recapitalisation reserved to MEF constitutes – pursuant to art. 18 of Decree 180 – a measure 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 control over the Bank would take place.

2.19 ***Risks associated with the ratings assigned to the Issuer***

The risk linked to an issuer’s ability to fulfil its obligations, which arise 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 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 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 are 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 potential need to supplement collaterals given.

A summary of the most recent comments made by the rating agencies on the Issuer is reproduced herein below:

DBRS (19 June 2018): confirmation of the ratings takes into account the progress made by the Bank in the context of the Restructuring Plan in terms of: i) completion of the securitisation of non-performing loans for an amount equal to Euro 24.1 billion and the other steps aimed at improving the risk profile, ii) the increased efficiency arising from the exit of 1,800 employees and from the rationalisation of the branches network, and iii) the stabilisation of funding along with a reduction in its costs. However, ratings reflect the still considerable stock of Impaired Loans of the Bank and the consequent adverse effect on capital, as well as the challenges to be met by the Bank to improve its profitability. For the purposes of an upgrade in ratings, further improvements are needed in terms of asset quality, profitability and efficiency. A downgrade in ratings might conversely be due to a decrease in investors' confidence, to a significant weakening in terms of capital and to difficulties in the further reduction of non-performing loans;

Fitch (24 July 2018): confirmation of the ratings reflects an improvement in the asset quality and a reduced pressure on the capital of net Impaired Loans following completion of the securitisation of the NPLs. The impact of NPLs on overall loans remarkably dropped from late 2016, but it might still be higher than the average of the Italian and international market. The rating agency holds that the Bank's capitalisation is not proportionate with the risks, even though pressure on the capital of Impaired Loans should be relieved any time the scheduled transfers of Impaired Loans are made. The ratings also reflect the belief that funding and liquidity depend on State-guaranteed instruments and on refinancing transactions performed by the ECB; for the rating on funding and on the liquidity to be upgraded, the Bank should further stabilise funding from customers and restore an ordinary and regular access to the markets. The rating agency holds that further progress is needed for the Bank to completely restore the trading capacity of its own network, to effectively operate in a competitive sector, to keep up with market innovations and to reach adequate profitability levels again. The outlook "Stable" reflects the expectation that the Bank's outlook will remain stable, provided that the Bank goes on with its own restructuring and the macro-economic and market background does not deteriorate. The ratings might be upgraded if the Bank reverts to sustainable profitability levels, keeping at the same time an adequate capitalisation and credit quality control. An upgrade in ratings further requires evidence of the occurred normalisation of funding and liquidity levels; and

Moody's (3 December 2018): the rating agency Moody's downgraded the long-term senior unsecured rating of BMPS from 'B3' to 'Caa1', thereby confirming the long-term deposit rating of 'B1' and the standalone baseline credit assessment ("BCA") of 'Caa1'. The outlook on the long-term deposit rating was changed to 'negative' from 'stable', in line with the negative outlook assigned to the senior unsecured debt. The confirmation of BCA of 'Caa1'

reflects improving but still very high asset risk, pressures on capitalisation and weak profitability. The stock of Impaired Loans of the Bank remarkably decreased following the securitisation of NPLs and Moody’s expects that the asset risk will keep on improving following further disposals of Impaired Loans planned for the next months. The capitalisation of BMPS is under pressure due to the impact of the widening of spread on Italian Government bonds. The Bank returned to profitability during the first three quarters of 2018 after many quarters of heavy losses; however, the rating agency holds that BMPS has yet to demonstrate that it is able to sustain this profitability, given the residual stock of NPLs and its funding structure. The downgrade of the long-term senior unsecured rating to ‘Caa1’ reflects the limited stock of senior securities due to the repayment, in recent months, of material amounts not replaced by new issuances. An upgrade of BMPS' long-term ratings is unlikely in the short term, given the negative outlooks. The BCA could be upgraded following tangible and sustainable progress towards the targets set by the Bank's Restructuring Plan, more specifically: (i) a ROA above 0.4 per cent.; (ii) an Impaired Loans ratio below 15 per cent. of loans; and (iii) increased deposit funding or senior and subordinated debt securities issuances not secured by way of a Government guarantee. Moody’s could downgrade the senior unsecured debt and deposit ratings if the stock of senior debt continues to decrease. The BCA could be downgraded if (i) the Bank failed to return to sustainable profit generation; (ii) capital ratios fell materially; and (iii) the Bank experienced material deposit outflows.

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Also considering the Bank's ownership structure, the Issuer’s ratings may furthermore be affected by the rating of the Italian State which, as at the date of the Prospectus, is higher than that of the Issuer. Therefore, a potential downgrading of Italy’s sovereign rating may lead to a further downgrading of the Issuer’s rating, with a consequently negative impact on the business and the economic, capital and/or financial condition of the Bank and/or the Group. For further information on the Italian State's rating, see paragraph "Risks associated with the Groups exposure to sovereign debt" above.

On the Issuer’s creditworthiness depends the possibility for it 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, a circumstance that may cause increased deposit collection costs or require the creation of additional guarantees for the purpose of raising liquidity, with consequent negative impacts 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 Prospectus, or the fact that any such rating becomes subject to review by the 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 Prospectus.

2.20 *Risks associated with the assignment and evaluation of equity interests*

As at 30 September 2018, the value of equity interests amounted to Euro 905 million, equal to 0.7 per cent. of the Group's total assets; the most relevant are AXA MPS Assicurazioni Vita S.p.A. (Euro 684 million), AXA MPS Assicurazioni Danni S.p.A. (Euro 66 million), Fondo Etrusco (Euro 71 million), Fondo Minibond Italia (Euro 35 million) and Fidi Toscana S.p.A. (Euro 22 million). As at 31 December 2017, instead, the value of equity interests amounted to Euro 1,035 million, equal to 0.7 per cent. of the Group's total assets; the most relevant were AXA MPS Assicurazioni Vita S.p.A. (Euro 792 million), Fondo Etrusco (Euro 68 million), AXA MPS Assicurazioni Danni S.p.A. (Euro 81 million), Fidi Toscana S.p.A. (Euro 22 million) and Fondo Minibond Italia (Euro 38 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 2018, the assessment of equity interests impairment indicators entailed value adjustments equal to around Euro 6 million, primarily due to the depreciation of equity interests Trixia S.r.l..

As at 31 December 2017, the assessment of equity interests impairment indicators entailed value adjustments equal to around Euro 27. million, entirely referred to the equity interests in Trixia s.r.l., Interporto Toscano Vespucci S.p.A. and Fidi Toscana S.p.A..

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 Bank may be forced to apply significant write-downs, with potential negative impacts 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, Monte Paschi Banque S.A. and Banca Monte Paschi Belgio S.A.. As at the date of the Prospectus:

– With respect to Monte Paschi Banque S.A., the Bank resolved upon the start of the orderly winding down process setting out a plan compliant with the Commitment No. 14 ("*Disposal of participations and businesses*"): (i) progressive deleverage of the current portfolio of receivables, (ii) acceptance of deposits only from already existing customers, (iii) interruption of the business development activities and (iv) prohibition of new initiatives in new market segments. Also, in order to comply with the commitment undertaken under the Restructuring Plan, there might be negative impacts on the capital, economic and financial situation of the Issuer due to the potential costs of the restructuring of Monte Paschi Banque S.A.;

– With respect to Banca Monte Paschi Belgio S.A., the negotiations for the transfer have been concluded. On 5 October 2018, the Bank entered into an agreement with a company controlled by funds managed by Warburg Pincus for the sale of Banca Monte Paschi Belgio S.A.. As of the date of this Prospectus, the transfer is subject to the approval of the Belgian national bank and the ECB. The expected loss related to the transfer has been set out in the Interim Financial Report for the period ending on 30 September 2018.

2.21 *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 all cases 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 was 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 was authorised to use scaling[1] techniques of external loss data for the calculation of the requirement starting from 30 June 2017.

As at 31 December 2017, the overall capital requirement in respect of operational risks was equal to Euro 801 million, increased compared to Euro 678 million as at 31 December 2016, mainly due to the evolution of the models carried out as at 30 June 2017. The overall operational losses are increasing primarily due to claims made by customers.

As at 30 September 2018, the Group's capital requirement in respect of operational risks was equal to Euro 778 million, substantially stable compared to 31 December 2017.

As at 30 September 2018, the overall operational losses were reduced compared to operational losses incurred in 2017.

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

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[1] 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.

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 electrical and/or telecommunication services, possible terrorist attacks).

2.22 ***Risks associated with securitisations***

Starting from 2000, the Group carried out several securitisation transactions aimed at (i) optimising its liquidity profile, by placing the asset backed notes on the market and using such notes in the context of refinancing transactions with the ECB and repo transactions and (ii) freeing up regulatory capital.

As of the date of this Prospectus there are some on-going securitisation transactions which do not provide for assets derecognition, for which therefore the Group is holding all the risks and benefits relating to the ownership of the assigned receivables and two securitisation transactions providing for the asset derecognition: Casaforte S.r.l., completed in 2010, and Siena NPL 2018 S.r.l., completed in 2017, for which the underlying assets have been completely derecognised.

The ordinary structure chosen for the securitisation transactions providing for no assets derecognition provides that the Group transfers the selected assets to a special purpose vehicle and it subscribes the junior, mezzanine or senior tranches; the assets transferred to the special purpose vehicle are not written-off from the consolidated financial statement of the Group: rather, the risk relating to such transactions is set out in the financial statements by accounting the transferred receivables in the assets column of the balance sheet, which are therefore evaluated in their entirety.

On the other hand, it should be noted that the main goal of securitisation transactions is to strengthen the counterbalancing capacity and the liquidity position of the Group, considering that the asset-backed notes subscribed for can be used as collateral in collateralised financing transactions; in particular, senior tranches, where eligible, can be used as collateral in the refinancing transaction with the ECB. In this respect, among the risks relating to these transactions, the risk of price change of the asset-backed notes issued and not sold to third parties and/or the risk of downgrading must be considered, on the basis that they might reduce the Issuer ability of refinancing.

With regard to the Siena NPL transaction, as of 31 December 2017, the asset backed notes issued by the Siena NPL 2018 S.r.l. vehicle were fully held by the Group.

During the first semester of 2018, BMPS completed (i) on 9 January 2018, the transfer of 95 per cent. of Mezzanine Notes for a nominal amount equal to Euro 847.6 million with Quaestio SGR on behalf of the Italian Recovery Fund (formerly Atlante II, a closed-end alternative investment fund established under Italian law reserved to professional investors and managed by Quaestio Capital SGR S.p.A.) (the "**Italian Recovery Fund**") and (ii) on 22 June 2018, the transfer of 95 per cent. of Junior Notes for a nominal amount equal to Euro 565 million. The

Senior Notes are currently held by the Assigning Banks (as defined below), which will be able to assess their potential placing in the market.

Following the sale of 95 per cent. of the Mezzanine Notes and the Junior Notes and the complete outsourcing of the recovery activities related to the portfolio, on 22 June 2018, the full derecognition of the NPL Portfolio had been completed. From that date, the Bank accounts an overall amount of Euro 2,823 million in its financial statements in relation to the exposures against the tranches issued and not sold.

In light of the above, the Issuer 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 related 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 impacts on the economic, capital and financial condition of the Bank and the Group.

The value of each class of asset-backed 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 asset-backed notes.

2.23 ***Risks associated with the Montepaschi 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 might significantly change due to the evolution of: (i) the national and international environment, (ii) the financial markets, with consequent impacts on the performance of rates, the fluctuation of prices, the assumptions of actuarial estimates, (iii) the real estate market with consequent effects on the real estate assets owned by the Group and held as collateral and (iv) potential changes in laws and regulations.

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 impacts 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 2018, the Group's net loans to customers amounted to Euro 87,465 million (Euro 86,456 million as at 31 December 2017) 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 recoverable 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. These adjustments are calculated pursuant to the new impairment model provided for by IFRS 9, which introduces the concept of expect credit loss (ECL), defined as the weighted average of losses on credit, using as "weights" the relevant risks of default. This model is characterised by the use of forward looking information and macroeconomic variables, entailing a faster recognition of losses, which are recognised also on performance activities even if not already incurred. Furthermore the adjustments of value calculation changes on the basis of the stage allocation of the single asset, determined in relation to the worsening of the credit quality compared to the initial recording.

Therefore, 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.;

- 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; and

- the macroeconomic scenarios and the expected loss estimates calculated for each scenario considering the PD and LGD specifications.

Finally, it should be noted that the credit assessment depends also on the strategies carried out by the Group for the relevant recovery on the basis of the provisions of the Restructuring Plan. Therefore, as to the estimate of the expected loss on non-performing exposure the expected transfers are considered as well. This entails also the assessment of the exposures potentially included in these transactions, in the context of the strategies provided for the Restructuring Plan, considering also this recovery procedure. This measure criterion is applied where the transfer of the portfolio of receivables is deemed highly probable; therefore such assessment could significantly affect the capital, economic and financial situation of 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 updating process for the purpose of better representing the presumable recoverable 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.

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 interim financial report for the period ending on 30 September 2018, also after a possible further worsening of the economic-financial crisis, with consequent impact on the economic and financial and condition of the Group.

Determination of financial instruments' fair value (financial assets and liabilities)

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 valued at fair value on a recurrent basis and classified in correspondence of Level 3 in the fair value hierarchy as at 30 September 2018 amounted to Euro 821 million (Euro 910 million as at 1 January 2018, including the effects of the reclassification linked to the implementation of IFRS 9; equal to Euro 336 million as at 31 December 2017); 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 2018, 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 19.0

per cent. and 3.2 per cent. respectively (17.8 per cent. and 1.4 per cent. as at 31 December 2017).

It cannot, accordingly, be excluded that the selection of alternative models and parameters may entail negative impacts, even significant once, on the economic, capital and financial condition of the Group.

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.

2.24 ***Risks relating to DTAs***

As at 30 September 2018, deferred tax assets ("**DTA**") amounted in aggregate to Euro 2,901 million (compared to Euro 2,937 million as at 31 December 2017), of which Euro 1,002 million (compared to Euro 1,313 million as at 31 December 2017) 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 RWA 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 Decree 237 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 is deemed deferred, the amount remaining unchanged, to 2016; as a consequence of the exercise of the option, the Bank also proceeded with the payment of the fee due for 2017 and 2018 for the amount of Euro 141.8 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 corporate income tax ("**IRES**") (and IRAP, as defined below) taxable income for the Group, extending, as a result, the time horizon for the absorption of tax losses and prior economic growth support (*aiuto alla crescita economica*) ("**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 Group.

In light of the above, the main types of deferred tax assets recognised in the Financial Statement 2017 and the Interim Financial Statements as 2018 are highlighted below.

Deferred tax assets relating to write-downs and credit losses as at 30 September 2018 amounted to Euro 557 million (Euro 734 million as at 31 December 2017) 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 2018 amounted to Euro 441 million (Euro 576 million as at 31 December 2017), 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 2018 to Euro 300 million (Euro 312 million as at 31 December 2017).

Deferred tax assets relating to capital losses recorded in the specific equity valuation reserves are equal to Euro 230 million as at 30 September 2018 (Euro 162 million as at 31 December 2017). Such reserves represent the fair value movements of cash flow hedging derivatives and securities recorded in the Financial Statement assets under item "Financial activities valued at fair value affecting the overall profitability".

As at 30 September 2018, DTAs are, furthermore, recognised as tax losses for Euro 1,097 million (Euro 901 million as at 31 December 2017) and EGS surpluses for Euro 177 million (Euro 146 million as at 31 December 2017). 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 30 September 2018 and for the subsequent ones, as equal to 1.5 per cent. (measure 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 Statements 2018, as well as in Financial Statement 2017, 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, since the interim financial statement as at 30 June 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 provided 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 (the 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 2018, the failed recognition of DTAs potentially accrued from tax losses and EGSs for Euro 1,965 million (Euro 1,786 million as at 31 December 2017).

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 impacts, even material, could impact on the business and the economic, capital and/or financial condition of the Bank and/or the Group.

2.25 ***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 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 (approximately Euro 10 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 Gruppo Montepaschi S.c.p.a., for the purpose of direct taxes, value-added tax ("**VAT**") and Italian regional tax on productive activities ("**IRAP**"), 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 and IRAP purposes, and for Euro 9.1 million for VAT purposes, plus the relating legal sanctions, not estimated. Following the settlement and the dialogue with the tax authority, as of the date of this Prospectus the overall charges amount to Euro 3.9 million of which: Euro 1.2 million for VAT sanctions, Euro 2.2 for higher IRES taxation and Euro 0.5 million for the relevant reduced sanctions.

With reference to the IVA remarks, the Bank challenged the provision imposing sanctions in relation fiscal year 2011 and it submitted a defensive statement concerning the dispute act relating to 2012. With respect to the rest of the remarks for the purposes of IRES, relating to the tax periods between 2013 and 2015, considering that on 15 December 2017 the Bank had determined through a tax assessment the contestations regarding 2012, depending on the

discussion with the tax authority and, given the similarity of the findings, it is perfectly reasonable assuming that similar way of definition will be applied also for the next annuity; this will allow to close the dispute with a disbursement in the form of taxes for approximately Euro 2.2 billion, in addition to Euro 450,000 for reduced fines.

The Bank 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.

Finally, it should be noted that, on 10 April 2018, the revenue agency, regional office for Tuscany, started a control proceeding on the Bank for the 2015 tax period. Following the conclusion of such controls, on 17 December 2018 a tax police audit report was notified to the Bank objecting (i) the incorrect calculation with regard to IRES of the benefits deriving from the provisions of EGS and (ii) with regard to IRAP the non-taxation of certain revenues recorded under items not relevant for the purpose of the mentioned tax. The higher potential taxes associated with the EGS finding are equal to Euro 3.3 million, while the findings relating to IRAP entail higher taxes for approximately Euro 3.9 million. In-depth assessments of the complaints raised are still on-going in order to identify the appropriate initiatives to be carried out.

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 a potential negative impact on the business and the capital, economic and/or financial conditions of the Bank and/or the Group.

2.26 ***Risks associated with the organisation and management model pursuant to Legislative Decree No. 231/2001***

The Issuer adopted its own organisation and management model as provided for by Legislative Decree No. 231/2001, established a set of rules suitable to prevent the adoption of unlawful behaviours by top managers, managers and/or employees. Furthermore, also considering the current ownership structure and the participation of the MEF in the share capital of the Bank, the Issuer supplemented its organisational model to prevent the criminal offences pursuant to Legislative Decree No. 231/2001 with the guidelines for the prevention of corruption within the Group. These guidelines supplement the organisational model for the prevention of the criminal offences provided for by Legislative Decree No. 231/2001 and therefore contain also the controls provided for by this model. It cannot be excluded that potential illicit offences could expose the Bank to administrative liability with consequent negative impacts on the capital, economic and financial position of the Bank.

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 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 No. 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 No. 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 potential negative impacts 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 No. 231/2001 may have reputational impacts even significant on the Bank and/or the Group, with consequent potential negative impacts on the business and the economic, capital and/or financial condition thereof.

As at the date of this 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 the crimes of money laundering and obstruction to the supervisory authority. 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 Italian Criminal Code); and (iii) of criminal association (art. 416 of the Italian 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, by order of 3 March 2015, raised in 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 Supreme 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 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 Supreme 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 was held on 1 December 2017 before such Courts. At the hearing of 1 December 2017, the proceeding were postponed to 5 June 2018 for the discussion of the preliminary issues; the hearing was postponed to 17 April 2019.

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 No. 231/01.

In such matter – related to the process of accounting of the Alexandria and Santorini transactions following the restatement that 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. An indictment has been requested against the abovementioned officers 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 proceedings against the Bank, as an administrative accountable entity, was merged with the one pending against the individuals.

2.27 *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" is 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" (the 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 afore-mentioned 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 European Commission confirmed the compliance of the Restructuring Plan with the "staid aid" provisions to the Bank and therefore, it was able to start the precautionary recapitalisation and apply the Burden Sharing. 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.

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

3.1 *Risks associated with the evolution of the banking and financial sector regulation and of the additional provisions the Montepaschi 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 Istituto per la Vigilanza sulle Assicurazioni ("**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 No. 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 associated risks;
- quantitative and qualitative limits in the ability to develop certain financial aggregate data, even depending on the risks associated therewith (i.e. 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. Starting from 1 January 2014, part of such laws and regulations has been amended in accordance with the guidelines set out under Basel III, mainly for the purpose of strengthening the minimum capital requirements, restraining the leverage ratio and introducing policies and quantitative rules to mitigate the banks' liquidity risk.

At EU level, Basel III has been transposed in the CRD IV and CRR. 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 Italian 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.

The EU regulatory framework provides for, inter alia, the adoption by the European Commission of implementing rules and technical standards. A number of such technical rules have not been yet adopted.

Specifically, in terms of capital requirements, the new regime provides for: (i) a Common Equity Tier 1 Ratio of at least at 4.5 per cent. of the overall amount of the Bank's exposure to risk; (ii) a Tier 1 Ratio of at least at 6 per cent. of the overall amount of the Bank's exposure to risk; and (iii) a Total Capital Ratio of 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), the banks were to maintain a capital conservation buffer equal to 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 were 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; and (ii) should they be qualified as G-SIIs (the so-called "**Capital Buffer for G-SIIs**"); and/or (iii) should they be qualified as O-SIIs

On 30 November 2016, the Bank of Italy identified the UniCredit, Intesa Sanpaolo and the Group as O-SIIs. However, on 30 November 2018, the Bank of Italy announced that the Group would no longer be considered an O-SII as from 1 January 2019.

With respect to the SREP to which the Group was subject during 2016, it should be noted that on 19 June 2017, the ECB required the Bank to comply, starting from 1 January 2018, with a level of 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; and
- an additional 3 per cent. requirement (Pillar II), in line with article 16, second subsection, lett. (a) of the SSM Regulation, which shall be fully composed of Common Equity Tier 1.

Furthermore, the ECB notified to the Issuer the expectation for the Group to comply with an additional 1.5 per cent. threshold (Pillar II capital guidance) to be fully satisfied with Common

Equity Tier 1, in addition to (i) the Pillar I, (ii) the Pillar II 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 II capital guidance, the supervisory authority, which shall be promptly informed in detail 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).

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 liquidity, the CRR provides, inter alia, for compliance with a short-term indicator (the LCR), aiming at the constitution and retention of a liquidity buffer capable of allowing the Bank's survival for 30 days in case of serious stress, and with a structural liquidity indicator (the 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 value of 100 per cent. starting from 1 January 2018 is provided for; and

– as to the NSFR, the European Union regulation is introduced in the legislative proposal to amend the CRR – referred to as CRR II – by the European Commission, published on 23 November 2016, whose implementation date and final contents shall depend on the timing and outcomes of the conclusion of the relevant legislative process. The mandatory minimum threshold of the ratio shall be equal to 100 per cent..

Furthermore, Basel III (as defined below) 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 was subject to reporting obligations by banks starting from 2015; however, to date, the minimum threshold and the commencement date of the index at hand have not yet been defined. Full implementation of the leverage ratio as a measurement of the Pillar I in the EU is currently under consultation as part of the "CRR II / CRD V" group of reforms, whose implementation date and final contents shall depend on the timing and outcome of the conclusion of the relevant legislative process.

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.

In light of the above, the on-going compliance with the several regulations, namely (taking account of the criteria introduced by Basel III) the need to increase the capital consistency – size remaining unchanged – and compliance with liquidity parameters, requires a significant commitment of resources, as well as the adoption of equally complex internal rules and policies which may result in 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 potential relevant negative impacts on operating results and the economic, capital and financial condition of the Group. In this respect, as at the date of the 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 was 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 2015, 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 Consolidated 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. Agreement on the main elements of these proposals was reached by December 2018, with legislation expected to be finalised and published shortly.

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 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. Agreement on the main elements of these proposals was reached by December 2018, with legislation expected to be finalised and published shortly thereafter.

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.

The finalisation by the Basel Committee of the reform package of the risk weighted assets prudential treatment occurred at the end of 2017 and will need to be transposed into EU legislation.

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 and 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. Agreement on the main elements of these proposals was reached by December 2018. The entry into force of the majority of the proposed amendments will depend on when the technical details of the legislative process are finalised and the amending directives published.

The 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*", and on 15 March 2018 the "*Addendum to ECB Guidance to banks on non-performing*

loans", both addressed to credit institutions, as defined pursuant to article 4, paragraph 1, of the CRR. These guidances are 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 deemed useful to indicate and which should be viewed as expectations of ECB banking supervision. The documents define 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 these guidances, in line with the gravity and extent of NPLs in the respective portfolios. It should be noted that, on 15 March 2018, the ECB published the *addendum* to such guidance. In particular, this addendum provides with respect to all the loans that will be qualified as Impaired Loans from 2018, that it shall be achieved a total coverage within two years for unsecured loans and within seven years for secured loans at the latest. Therefore, 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.

On 14 March 2018, the European Commission presented an amendment proposal to the European rules on the prudential requirements of credit institutions in terms of Impaired Loans ("*Proposal for a Regulation of the European Parliament and the Council amending the Regulation (EU) No. 575/2013 regarding the minimum coverage of losses on impaired exposures*").

It should finally be noted that supervisory authorities have the power to bring administrative and judicial proceedings against the Group, which may translate, *inter alia*, into the suspension or revocation of authorisations, warning measures, fines, civil or criminal sanctions or other disciplinary measures, with potential negative impacts 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 potential relevant negative impacts on the operating results and the economic, capital and financial conditions of the Issuer.

3.2 ***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 net 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 potential negative impacts on the business and the economic, capital and/or financial condition of the Bank and/or the Group.

3.3 ***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 asset-backed securities 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. This purchase plan ended on September 2018.

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 2018, the Group refinancing with the ECB was constituted by the TLTRO II four-year auctions with maturity on 24 June 2020 and maturity on 30 September 2020, for an overall exposure, net of accrued interests, equal to Euro 16,689 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, a coupon of 0.5 per cent. and a nominal amount of Euro 3 billion, the second issuance with maturity on 25 January 2020, a coupon of 0.75 per cent. and a nominal amount of Euro 4 billion. Subsequently, on 15 March 2017, the Bank executed a second issuance of state guaranteed securities, with maturity 15 March 2020, a coupon of 0.75 per cent. and a 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 that 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 potential negative impacts 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 impacts on the business and the economic, capital and/or financial condition of the Bank and/or the Group.

3.4 *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 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 was

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 potential negative impacts on the business and the economic, capital and/or financial conditions of the same and/or the Group.

3.5 ***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 potential negative impacts, even significant, on the estimates contained in the financial plans for future years and may have to restate previously published financial data.

In this respect, the application of the new International Accounting Standards IFRS 9 "Financial Instruments" ("**IFRS 9**") and IFRS 15 "Revenues from contracts with customers" ("**IFRS 15**"), both approved in 2016, should be noted, which replaced, respectively, IAS 39 "Financial Instruments: recognition and measurement" and IAS 18 "Revenues" with effect from 1 January 2018.

IFRS 9 amended 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. Furthermore, IFRS 9 provided 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.

IFRS 9 also had an impact 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 Group opted for the option to continue to apply the prior versions of International Accounting Standard IAS 39 in the matter of "hedge accounting" ("carved-out" version). The Group exercised the right to apply separately the rules relating to the accounting treatment of

profits/losses related to its creditworthiness of liabilities in fair value option (FVO) since the 2017 Consolidated Financial Statements.

IFRS 15 has become applicable as of 1 January 2018. Such standard amended the set of International Accounting Standards replacing the standards and interpretations on "revenue recognition" and, specifically, IAS 18.

IFRS 15 provides for (i) two approaches for revenues recognition ("at point in time" or "over time"), (ii) a new transaction analysis model ("Five steps model") focused on the transfer of control and (iii) a greater disclosure required to be included in the notes to the financial statement.

The quantitative impacts following the first application of IFRS 9 and IFRS 15 on the Group are described in the Group's financial statements.

IFRS 16 "Leases" ("**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 introduces certain criteria based on the control (right of use) of an asset in order to distinguish leasing agreements from service agreements, such as: the identification of the asset, the right to substitute such asset, the right to obtain all the economic benefits deriving from the use of the asset and the right to control the use of such asset.

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.

3.6 *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) BRRD; and (iii) Regulation (EU) No. 806/2014 of the European Parliament and the Council 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 SRF. 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 and as at 31 December 2017 the Group has contributed with Euro 29 million to the DGS' national schemes in both years. With respect to 2018, Italian banks will be required to pay the contribution with reference to the existing contribution base as at 30 September 2018 and, consequently, the verification of the same contribution for the current year will be made only on such date; as at 30 September 2018, around Euro 29 million have been allocated as contribution.

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, while as at 30 December 2017 the contribution has been equal to Euro 62 million. As at 30 September 2018, the Group's contribution is equal approximately to Euro 69 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 NFR, which collects from banks with registered office in Italy ordinary and extraordinary contributions, in accordance with the provisions of articles 82 and 83 of Decree 180 (as defined above). At the end of 2015, the NRF 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. 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 NRF 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 of 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 NRF 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 (the 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.

The SRF and the NRF may in the future require additional contributions for an amount that cannot be currently determined, with potentially significant negative impacts on the business of the Issuer, transaction results and financial conditions.

During 2017 nothing has been paid, while in 2018, according to the provision of article 25 Decree n. 237 – converted by Law 17 February 2017, no.15 – the NRF, considering the forthcoming financial needs, required some annual contribution under article 1(848), Law n. 208/2015. Specifically, article 25 introduces new integrative provisions in the annual additional contribution scheme in the NRF regulated by Law 208/2015. In particular, it has been pointed out that the additional contributions are to be paid to cover every obligation, loss, cost and any other charge or liability against NRF, originated or linked with the execution of resolution measures with the purpose of ensuring the efficacy, also as a consequence of potential modifications. Furthermore, article 25(2) provides that the Bank of Italy may determine the amount of the additional contributions – after deduction of the contributions required by the Single Resolution Fund under articles 70 and 71 of Regulation (EU) 806/2014 – within two years from the initial contribution reference date and it may provide that the same contributions become due in a period defined by the Bank, nit longer than 5 years.

The reference date for the additional contributions required in the first semester of 2018 is 2016, for an amount of Euro 26 million. It is specified that for the reference year 2016 two contribution quota remaining to be due within 31 December 2018.

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 FITD, a voluntary scheme was established as an additional tool not subject to the restrictions of the EU regime and of the European Commission (the "**Voluntary Scheme**"). 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 2017 resolved a capital increase by Euro 95 million (from Euro 700 to Euro 795 million). As a consequence of such increase, the overall commitments of the Group to the Voluntary Scheme, including quotas already recalled, have been estimated at Euro 55 million.

Following the communications received on 20 September 2017 and 7 December 2017, the quota required against the Group amounts for a total of Euro 54 million (of which Euro 20 million in 2016 and Euro 34 million in 2017). As a result, the outstanding commitment of the Group against the Voluntary Scheme is essentially reduced to zero.

The contribution paid by banks adhering to the Voluntary Scheme represents an asset, recorded in the balance sheet of the participating banks (in the previous financial years the item "financial assets available for sale", while as of 1 January 2018 under the item "financial assets compulsorily valued at fair value" as a consequence of the entry into force of IFRS 9). 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 Voluntary Scheme.

The Group posted adjustments for an overall amount of Euro 51 million. As at 30 September 2018, the residual value of the adjustments is equal to Euro 2 million.

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 FITD, the SRF and/or the NFR 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.

Subsequently, at the Voluntary Scheme meeting held on 30 November 2018, a new increase in capital (which had basically become equal to zero due to the actions set out above) was resolved upon, to be used immediately to underwrite a subordinate Tier 2 loan issued by Banca Carige S.p.A. ("Carige") as part of the actions provided by the "Capital Conservation Plan", approved by Carige's board of directors on 29 November 2018, for the purposes of reverting to the capital requirements as at 31 December 2018 in terms of TSCR and OCR, in line with what was requested by the ECB.

As part of the action, which provides for an overall issuance of up to Euro 400 million, Euro 318.2 million was underwritten directly through the Voluntary Scheme while Euro 1.8 million was underwritten by Banco di Desio e della Brianza (which is not included among the participants in the Voluntary Scheme). Starting from 30 November 2018 and until Carige's board of directors will have implemented the capital increase that shall be resolved upon by Carige shareholders' meeting scheduled to take place on 22 December 2018, the subordinate notes might be offered as private placement up to a maximum amount of Euro 400 million to professional investors (both shareholders and other investors). In case of requests of amounts

higher than Euro 80 million, the amount of notes to be underwritten by the Voluntary Scheme can be reduced.

The notes will be issued at par value (100 per cent. of the face value) and will pay a fixed rate coupon equal to 13 per cent.; interests will be paid in cash only; and the term will be ten years. The terms and conditions of the notes include also the provision in accordance with which the notes can be redeemed by way of set-off of the credit arising out of the redemption of the notes with the debt arising out of the subscription of the shares (hence with the effect that the noteholders may receive either shares or money as redemption).

By virtue of the above action, the companies of the Group participating in the Voluntary Scheme (BMPS, MPS Leasing & Factoring and Banca Widiba) paid an overall amount of Euro 15 million to the latter. Considering that, as explained in the press releases issued by Carige, the issuance of the subordinated Tier 2 loan will act as a "bridge" to the capital increase up to Euro 400 million scheduled to take place by April 2019, the Voluntary Scheme might hold a considerable interest in the share capital of Carige (even though the Voluntary Scheme will not control Carige due to statutory limits).

3.7 ***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 (referred to as the 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 (please see "Risks connected with political and economic decisions of EU and Eurozone countries and the United Kingdom leaving the European Union" below).

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. The improvement of the economic conditions led to the gradual exit from the purchase programme, which will end in December 2018.

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 (0.1 per cent.) has been followed by a two-year period of moderate growth (0.9 per cent. and 1.1 per cent. in 2015 and 2016, respectively). In 2017 there was a satisfactory growth rate (1.6 per cent.). Despite such recovery, the Italian economy remains at a level of activity lower than the pre-crisis levels.

In the third quarter of 2018, after a phase of progressive deceleration of economic growth, the dynamics of the Italian economy were stagnant, marking a pause in the expansive trend experienced in the last three years. The preliminary estimate of GDP for the third quarter of the year shows a decline in the annual growth rate to 0.8 per cent. from 1.2 per cent. registered in the second quarter.

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 hard confrontation between the Italian government and the European institutions regarding the approval of the financial manoeuvre, consisting in a deviation from the original agreement on public finance, to preserve the Italian growth. This could lead to the loss of control of the balance accounts and consequent sanctions of the markets. Furthermore, it is not yet clear how the proposed changes in different areas (for example, the revision of tax policy and labour market legislation) will impact the Italian economic growth.

These uncertainties have led to an increase in the spread BTP-Bund. The spread has gradually increased since the end of April, fluctuating around 300 basis points, against an average of around 130 recorded in the first four months of 2018.

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 a potential negative impact on the business and the economic, capital and/or financial condition of the Bank and/or the Group.

3.8 ***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 during which the U.K. is negotiating with the EU the terms of its withdrawal and of its future relationship with the EU (the "**Article 50 Withdrawal Agreement**").

If the parties fail to reach an agreement within this time frame, all EU treaties cease to apply to the UK, unless the European Council, in agreement with the UK, unanimously decides to extend this period. As part of those negotiations, a transitional period has been agreed in principle which would extend the application of EU law and provide for continuing access to the EU single market, until the end of 2020. Absent such extension and subject to the terms of any Article 50 Withdrawal Agreement, the UK will withdraw from the EU no later than 29 March 2019. There are a number of uncertainties in connection with such negotiations, including their timing, and the future of the UK's relationship with the EU. It therefore remains uncertain whether the Article 50 Withdrawal Agreement will be finalised and ratified by the UK and the EU ahead of the 29 March 2019 deadline.

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 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 global economic conditions and the stability of international financial markets. These could include further falls in equity markets, a further fall in the value of the pound and, more in general, an increase in financial markets' volatility, reduce global market liquidity with possible negative consequences on the asset prices, operating results and capital and/or financial position of the Issuer and/or the Group.

In addition to the above and in consideration of the fact that at the date of this 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 Issuer and/or the Group.

3.9 *Basel III and CRDIV*

In the wake of the global financial crisis that began in 2008, the Basel Committee on banking supervision ("**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 were to be effective from 1 January 2018. A binding detailed net stable funding ratio was proposed as part of the CRD Reforms released in November 2016.

The Basel III framework has been implemented in the EU through new banking requirements: the CRD IV and the CRR (together, 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.

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 European 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 No. 72 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 2018:

- *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[2] to Circular No. 285 published on 4 October 2016, new transitional rules provide for a capital conservation buffer set at 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 2018 the specific countercyclical rate of the Montepaschi Group amounted to 0.001 per cent. of RWAs, equal to Euro 632,267.

- *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 (i.e. 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 Group will not be considered an O-SII and will have no O-SII Buffer for 2019; In 2018 the Group had to maintain a capital buffer of 0.06 per cent. of its total risk exposure.

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[2] 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.

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*".

In addition, the Issuer is subject to the Pillar II 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 II requirement imposed on a bank, the type of capital which it must apply to meeting such capital requirements, and whether the Pillar II requirement is "stacked" below the capital buffers (i.e. the bank's capital resources must first be applied to meeting the Pillar II 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 II 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 I, Pillar II 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 I and Pillar II own funds requirements of the institution. In effect, this would mean that Pillar II 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 I and Pillar II capital requirements have been met in full.

However, more recently, the EBA and the ECB appear to have adopted a different approach to Pillar II. In its publication of the 2016 EU-wide stress test results on 29 July 2016, the EBA has recognised a distinction between "Pillar II requirements" (stacked below the capital buffers) and "Pillar II capital guidance" (stacked above the capital buffers). With respect to Pillar II 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 II requirements and Pillar II capital guidance and noting that "Under the stacking order, banks facing losses will first fail to fulfil their Pillar II capital guidance. In case of further losses, they would next breach the combined buffers, then Pillar II requirements, and finally Pillar I requirements".

The CRD Reform Package (as defined below) proposes to legislate this distinction between "Pillar II requirements" and "Pillar II capital guidance". Whereas the former are mandatory requirements imposed by supervisors to address risks not covered or not sufficiently covered by Pillar I 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 I and Pillar II) 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 II requirements, and not Pillar II capital guidance, will be relevant in determining whether an institution is meeting its combined buffer requirement.

Non-compliance with Pillar II 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 II 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 II 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 I 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 so called "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.

3.10 *Reform of EURIBOR and other interest rate index and equity, commodity and foreign exchange rate index "benchmarks"*

The Euro Interbank Offered Rate ("**EURIBOR**") and other indices which are deemed "benchmarks" are the subject of recent national, international and other regulatory guidance and proposals for reform. Some of these reforms are already effective while others are still to be implemented. These reforms may cause such "benchmarks" to perform differently than in the past, or to disappear entirely, or have other consequences which cannot be predicted. Any such consequence could have a material adverse effect on any Covered Bonds linked to a "benchmark".

Key international reforms of "benchmarks" include IOSCO's proposed Principles for Financial Market Benchmarks (July 2013) (the "**IOSCO Benchmark Principles**") and the Regulation (EU) No. 2016/1011 of the European Parliament and of the Council of 8 June 2016 on indices used as benchmarks in financial instruments and financial contracts or to measure the performance of investment funds and amending Directives 2008/48/EC and 2014/17/EU and Regulation (EU) No. 596/2014 (the "**Benchmarks Regulation**").

The IOSCO Benchmark Principles aim to create an overarching framework of principles for benchmarks to be used in financial markets, specifically covering governance and accountability, as well as the quality and transparency of benchmark design and methodologies. A review published in February 2015 on the status of the voluntary market adoption of the IOSCO Benchmark Principles noted that, as the benchmarks industry is in a state of change, further steps may need to be taken by IOSCO in the future, but that it is too early to determine what those steps should be. The review noted that there has been a significant market reaction to the publication of the IOSCO Benchmark Principles, and widespread efforts being made to implement the IOSCO Benchmark Principles by the majority of administrators surveyed.

On 17 May 2016, the Council of the European Union adopted the Benchmarks Regulation. The Benchmarks Regulation was published in the Official Journal on 29 June 2016 and entered into force on 30 June 2016. Subject to various transitional provisions, the Benchmarks Regulation applies from 1 January 2018, except that the regime for "critical" benchmarks has applied from 30 June 2016 and certain amendments to Regulation (EU) No. 596/2014 (the so-called Market Abuse Regulation) have applied from 3 July 2016. 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 Issuer) of "benchmarks" of administrators that are not authorised or registered (or, if non-EU based, not deemed equivalent or recognised or endorsed). The scope of the Benchmarks Regulation is wide and, in addition to applying to so-called "critical benchmark" indices such as EURIBOR, could also potentially apply to many other interest rate indices, as well as equity, commodity and foreign exchange rate indices and other indices (including "proprietary" indices or strategies) which are referenced in listed financial instruments, financial contracts and investment funds.

The Benchmarks Regulation could also have a material impact on any listed Covered Bonds linked to a "benchmark" index, including in any of the following circumstances:

1. an index which is a "benchmark" could not be used as such if its administrator does not obtain appropriate EU authorisations or is based in a non-EU jurisdiction which (subject to any applicable transitional provisions) does not have equivalent regulation. In such event, depending on the particular "benchmark" and the applicable terms of the Covered Bonds, the Covered Bonds could be delisted (if listed), adjusted, redeemed or otherwise impacted;

2. the methodology or other terms of the "benchmark" related to a series of Covered Bonds could be changed in order to comply with the terms of the Benchmarks Regulation, and such changes could have the effect of reducing, increasing or affecting the volatility of the published rate or level of the relevant "benchmark", and could lead to adjustments to the terms of the Covered Bonds.

Any of the international, national or other 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.

For example, the sustainability of the London interbank offered rate ("**LIBOR**") has been questioned as a result of the absence of relevant active underlying markets and possible disincentives (including possibly as a result of regulatory reforms) for market participants to continue contributing to such "benchmarks".

On 27 July 2017, the United Kingdom Financial Conduct Authority announced that it will no longer persuade or compel banks to submit rates for the calculation of the LIBOR "benchmark" after 2021 (the "**FCA Announcement**"). The FCA Announcement indicated that the continuation of LIBOR on the current basis cannot and will not be guaranteed after 2021. The potential elimination of the LIBOR "benchmark" or any other "benchmark", or changes in the manner of administration of any "benchmark", could require an adjustment to the terms and conditions, or result in other consequences, in respect of any Covered Bonds referencing such "benchmark". Such factors may have the effect of discouraging market participants from continuing to administer or participate in certain "benchmarks", trigger changes in the rules or methodologies used in certain "benchmarks" or lead to the disappearance of certain "benchmarks". 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 such Covered Bonds.

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 Covered Bonds referencing a "benchmark".

Pursuant to the terms and conditions of any applicable Covered Bonds whose return is determined by reference to any benchmark, as described in Condition 7 (*Benchmark replacement*) if the Issuer or Calculation Agent determines at any time that the Relevant Screen Page on which the Reference Rate for such Notes appears has been discontinued or following the adoption of a decision to withdraw the authorisation or registration as set out in Article 35 of the Benchmarks Regulation or any other benchmark administrator previously authorized to publish any replacement Reference Rate under any applicable laws or regulations, the Issuer will appoint an Independent Adviser who will determine an Alternative Reference Rate, as well as any necessary changes to the business day convention, the definition of business day, the interest determination date, the day count fraction, and any method for obtaining the Alternative Reference Rate.

These and other changes could significantly affect the performance of an alternative rate compared to the historical and expected performance of LIBOR or any other relevant benchmark. There can be no assurance that any adjustment factor applied to any Series of Covered Bonds will adequately compensate for this impact. This could in turn impact the rate of interest on, and trading value of, the affected Covered Bonds. Moreover, any holders of such Covered Bonds that enter into hedging instruments based on the Relevant Screen Page on which appears the Reference Rate may find their hedges to be ineffective, and they may incur costs replacing such hedges with instruments tied to the Alternative Reference Rate

3.11 *VAT Group*

Italian Law No. 232 of 11 December 2016 (the "**2017 Budget Law**") has introduced new VAT rules allowing groups to act as a single taxable person for value added tax purposes (articles from 70-bis to 70-duodecies of Presidential Decree No. 633 of 26 October 1972) and which, if so elected by the group head, applies from 1 January 2019. Pursuant to such rules, all entities included in the relevant VAT group are jointly and severally liable to the Italian Tax Authority for any VAT payments due by all members of the VAT group.

On 31 October 2018, the Italian Tax Authority issued circular No. 19 specifying that funds, as pools of segregated assets, would be liable only for the VAT payment obligations specifically relating to their assets. Although reasonable, it is unclear whether the same limitation would apply also to the assets held by a covered bond guarantor in the case of non-payment of VAT by any other member of its VAT group.

the Group has opted into the new VAT regime introduced by the 2017 Budget Law in respect of the Issuer’s group (including the Guarantor) with effect from 1 January 2019. Pending further clarifications on the scope of application of the new rules, the Issuer has submitted a ruling application to the Italian Tax Authority with the effect of excluding the Guarantor from the VAT group regime.

3.12 *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 applicable from 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. The TLAC standards will be implemented in the EU through amendments to the CRR to be made as part of the CRD Reform Package and the BRRD as part of the BRRD Reforms (as defined below).

Based on the most recently updated FSB list of G-SIBs published in November 2016 (to be updated annually), the 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 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 "CRD Reform Package") and also the BRRD and the SRM Regulation (as defined below), which is expected to become effective as from the beginning of 2019. 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. These proposals are now largely agreed upon, with technical details and final legislation yet to be published. Once these proposals are finalised, changes to the CRR will become directly applicable to the 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 Bondholders" 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 at the end of 2017. 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 favour 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 were published on 20 November 2017. Based on such Guidelines, 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 Covered Bonds should consult their own advisers as to the consequences for them of the application of the above regulations as implemented by each Member State.

3.13 *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 European 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 Euro 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 Montepaschi 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 II own funds requirements to be implemented from 1 January 2016. Under these guidelines, national supervisors should set a composition requirement for the Pillar II 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 regarding 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 Montepaschi 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.

3.14 *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 Covered Bonds and/or the rights of Bondholders*

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 included 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" was proposed to be added that would be eligible to meet the TLAC and MREL requirements.

In October 2017, the EU agreed to fast-track selected parts of the comprehensive package of reforms to further strengthen the resilience of EU banks. In particular, the European Parliament, the Council and the Commission agreed on elements of the review of the BRRD and the CRD IV Package.

An agreement was made on changes to article 108 of the BRRD to create the new asset class of "non-preferred" senior debt instruments with a lower rank than ordinary senior unsecured debt instruments in insolvency. In this regard, the Italian Parliament approved on 27 December 2017 Law No. 205/2017, which contains the implementing provisions pertaining to non-preferred senior debt instruments. The new class of non-preferred senior debt entered into force on 1 January 2018.

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 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 SRF is to be built up over eight years, beginning in 2016, to the target level of Euro 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 results in significant variations in the contributions by the banks under the SRM as compared to the BRRD. As a consequence of this difference, where 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 may abruptly decrease, while contributions of those banks established in Member States with fewer covered deposits may abruptly increase. 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 recapitalisation 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 at the point of non-viability and before any other resolution action is taken ("**Non-Viability Loss Absorption**").

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 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 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 Decree 180 and the Legislative Decree No. 181/2015 (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 Consolidated Banking Act 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. 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, 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, 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. 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.

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.

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. 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 Bondholders, the price or value of their investment in any Covered Bond and/or the ability of the Issuer to satisfy its obligations under any Covered Bond.

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. On 23 May 2016, the European Commission adopted Commission Delegated Regulation (EU) 2016/1450 supplementing BRRD that specifies the criteria which further define the way in which resolution authorities/the SRB shall calculate MREL, as described in article 45(6) of the BRRD. Article 8 of the aforementioned regulation provides that resolution authorities may determine an appropriate transitional period for the purposes of meeting the full MREL requirement.

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.

The BRRD Reforms, among other things 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 I 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 II MREL requirement"**). Banks will be allowed to use certain additional types of loss absorbent liabilities to comply with their Pillar II 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.

3.15 *As of 2016, the Montepaschi 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 (respectively, the "**SRM Regulation**" and 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 an SRF "*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 Covered Bonds and/or the rights of Bondholders*" 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.

3.16 *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 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 per cent. 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. The Bank and/or the Group do not otherwise conduct any other material business in or with any Sanctioned Country. As at the date of this 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 (except to the extent that such activities breach or would breach Council Regulation (EC) No 2271/96 of 22 November 1996 (as amended or supplemented from time to time) or any law or regulation implementing such Regulation in any member state of the European Union or the United Kingdom). Nor are they expected to result in the Bank and/or any member of the Group themselves becoming the subject of sanctions. However, following the unilateral decision of the United States to exit from the Joint Comprehensive Plan of Action ("**JCPOA**") – agreement entered into between Iran and EU – and the following provision of new extraterritorial sanctions, which were suspended pursuant to JCPOA 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 impacts on the capital, financial and economic situation of the Issuer and/or the Group

4. INVESTMENT CONSIDERATIONS RELATING TO THE GUARANTOR AND THE COVER POOL

4.1 *Guarantor only obliged to pay Guaranteed Amounts when they are Due for Payment*

Following service of a Guarantee Enforcement Notice on the Issuer and the Guarantor, under the terms of the Guarantee the Guarantor will only be obliged to pay Guaranteed Amounts as and when the same are Due for Payment, **provided that**, in the case of any amounts representing the Final Redemption Amount due and remaining unpaid as at the original Maturity Date, the Guarantor may pay such amounts in accordance with the applicable Priority of Payments on any Guarantor Payment Date thereafter, up to (and including) the Extended

Maturity Date. Such Guaranteed Amounts will be paid subject to and in accordance with the Guarantee Priority of Payments or the Post-Enforcement Priority of Payments, as applicable. In such circumstances, the Guarantor will not be obliged to pay any other amounts in respect of the Covered Bonds which become payable for any other reason.

Subject to any grace period, if the Guarantor fails to make a payment when Due for Payment under the Guarantee or any other Guarantor Event of Default occurs, then the Representative of the Bondholders will accelerate the obligations of the Guarantor under the Guarantee by service of a Guarantor Default Notice, whereupon the Representative of the Bondholders will have a claim under the Guarantee for an amount equal to the Guaranteed Amounts. Following service of a Guarantor Default Notice, the amounts due from the Guarantor shall be applied by the Representative of the Bondholders in accordance with the Post-Enforcement Priority of Payments, and Bondholders will receive amounts from the Guarantor on an accelerated basis. If a Guarantor Default Notice is served on the Guarantor, then the Covered Bonds may be repaid sooner or later than expected or not at all.

In accordance with article 7-*bis* of Law 130, prior to and following a winding up of the Guarantor and an Issuer Event of Default or Guarantor Event of Default causing the Guarantee to be called, proceeds of the Cover Pool paid to the Guarantor will be exclusively available for the purpose of satisfying the obligations owed to the Bondholders, to the Other Guarantor Creditors and to any other creditors exclusively in satisfaction of the transaction costs of the Programme. The Cover Pool may not be seized or attached in any form by creditors of the Guarantor other than the entities referred to above, until full discharge by the Guarantor of its payment obligations under the Guarantee or cancellation thereof.

4.2 ***Limited resources available to the Guarantor***

Following the service of a Guarantee Enforcement Notice on the Issuer and on the Guarantor, the Guarantor will be under an obligation to pay the Bondholders and shall procure the payment of the Guaranteed Amounts when they are due for payment. The Guarantor's ability to meet its obligations under the Guarantee will depend on (a) the amount of interest and principal generated by the Cover Pool and the timing thereof, (b) amounts received from the Swap Providers and (c) the proceeds of any Eligible Investments. The Guarantor will not have any other source of funds available to meet its obligations under the Guarantee.

If a Guarantor Event of Default occurs and the Guarantee is enforced, the proceeds of enforcement may not be sufficient to meet the claims of all the secured creditors, including the Bondholders. If, following enforcement and realization of the assets in the Cover Pool, creditors have not received the full amount due to them pursuant to the terms of the Programme Documents, then they may still have an unsecured claim against the Issuer for the shortfall. There is no guarantee that the Issuer will have sufficient funds to pay that shortfall.

Each Other Guarantor Creditor has undertaken in the Intercreditor Agreement not to petition or commence proceedings for a declaration of insolvency (nor join any such petition or proceedings) against the Guarantor at least until one year and one day after the date on which all Series and Tranches of Covered Bonds issued in the context of the Programme have been cancelled or redeemed in full in accordance with their Conditions and the relevant final Terms.

4.3 *Reliance of the Guarantor on third parties*

The Guarantor has entered into agreements with a number of third parties, which have agreed to perform services for the Guarantor. In particular, but without limitation, the Principal Servicer has been appointed, and upon accession to the Programme, each Additional Servicer will be appointed to carry out the administration, management, collection and recoveries activities relating to the Assets comprised in the relevant Portfolios sold to the Guarantor and (i) the Issuer has been appointed as Pre-Issuer Default Test Calculation Agent for any calculations in respect of the Mandatory Tests and the Asset Coverage Tests to be performed during the period prior to a Guarantee Enforcement Notice; (ii) the Guarantor Calculation Agent has been appointed as Post-Issuer Default Test Calculation Agent for any calculation in respect of the Mandatory Tests to be performed during the period following a Guarantee Enforcement Notice.

In the event that any of these parties fails to perform its obligations under the relevant agreement to which it is a party, the realisable value of the Cover Pool or any part thereof or pending such realization (if the Cover Pool or any part thereof cannot be sold) the ability of the Guarantor to make payments under the Guarantee may be affected. For instance, if the Principal Servicer and/or any Additional Servicer(s) has failed to administer the Mortgage Loans adequately, this may lead to higher incidences of non-payment or default by Borrowers. The Guarantor is also reliant on the Swap Providers to provide it with the funds matching its obligations under the Guarantee, as described in the following two investment considerations.

If a Servicer Termination Event occurs pursuant to the terms of the Master Servicing Agreement, then the Guarantor and/or the Representative of the Bondholders will be entitled to terminate the appointment of the Servicer and appoint a new servicer in its place. In addition, the Servicer may resign from the Master Servicing Agreement, within 12 months from the relevant Execution Date, by giving not less than a 6 months prior written notice to the Representative of the Bondholders, the Rating Agencies, the Asset Swap Provider and Joint-Arrangers. There can be no assurance that a substitute servicer with sufficient experience of administering mortgages of residential or commercial properties would be found who would be willing and able to carry out the administration, management, collection and recovery activities relating to the Assets on the terms of the Master Servicing Agreement. The ability of a substitute servicer to perform fully the required services would depend, *inter alia*, on the information, software and records available at the time of the appointment. Any delay or inability to appoint a substitute servicer may affect the realisable value of the Cover Pool or any part thereof, and/or the ability of the Guarantor to make payments under the Guarantee.

The Servicer has no obligation to advance payments if the Borrowers fail to make any payments in a timely fashion. Bondholders will have no right to consent to or approve of any actions taken by the Servicer under the Master Servicing Agreement.

The Representative of the Bondholders is not obliged in any circumstances to act as the Servicer or the Additional Servicer (as the case may be) or to monitor the performance by the Servicer or the Additional Servicer (as the case may be) of its obligations.

4.4 *Reliance on Swap Providers*

To mitigate possible variations in the performance of the Cover Pool, the Guarantor may, but it is not obliged to, enter into one or more Asset Swap Agreements with one or more Asset Swap Providers. In addition, to mitigate interest rate, currency and/or other risks in respect of

each Series or Tranche of Covered Bonds issued under the Programme, the Guarantor is expected to enter into one or more Covered Bond Swap Agreements with one or more Covered Bond Swap Providers in respect of each Series or Tranche of Covered Bonds.

A Swap Provider is (unless otherwise stated in the relevant Swap Agreement) only obliged to make payments to the Guarantor as long as the Guarantor complies with its payment obligations under the relevant Swap Agreement. In circumstances where non-payment by the Guarantor under a Swap Agreement does not result in a default under that Swap Agreement, the Swap Provider may be obliged to make payments to the Guarantor pursuant to the Swap Agreement as if payment had been made by the Guarantor.

If a Swap Provider is not obliged to make payments or if it defaults in its obligations to make payments of under the relevant Swap Agreement, the Guarantor may be exposed to changes in the relevant currency exchange rates to Euro and to any changes in the relevant rates of interest and/or to the performance of the Cover Pool. In addition, subject to the then current ratings of the Covered Bonds not being adversely affected, the Guarantor may hedge only part of the possible risk and, in such circumstances, may have insufficient funds to meet its payment obligations, including under the Covered Bonds or the Guarantee.

If a Swap Agreement terminates, then the Guarantor may be obliged to make a termination payment to the relevant Swap Provider. There can be no assurance that the Guarantor will have sufficient funds available to make a termination payment under the relevant Swap Agreement, nor can there be any assurance that the Guarantor will be able to enter into a replacement swap agreement with an adequately rated counterparty, or if one is entered into, that the credit rating of such replacement swap provider will remain sufficiently high to prevent a downgrade by the Rating Agencies of the then current ratings of the Covered Bonds. In addition, the Swap Agreements may provide that notwithstanding the downgrading of a Swap Provider and the failure by such Swap Provider to take the remedial action set out in the relevant Swap Agreement, the Guarantor may not terminate the Swap Agreement until a replacement swap provider has been found.

Following the service of a Guarantee Enforcement Notice, payments (other than principal payments) by the Guarantor (including any termination payment) under the Covered Bond Swap Agreements and Asset Swap Agreements will rank *pari passu* and *pro rata* to interest amounts due on the Covered Bonds under the Guarantee. Accordingly, the obligation to pay a termination payment may adversely affect the ability of the Guarantor to meet its obligations under the Covered Bonds or the Guarantee.

4.5 ***Differences in timings of obligations under the Covered Bond Swaps***

It is expected that pursuant to the Covered Bond Swap Agreements, the Guarantor will pay on each quarterly Guarantor Payment Date, a floating rate option such as, for Series or Tranches of Covered Bonds denominated in Euro, a floating rate linked to EURIBOR. Each Covered Bond Swap Provider is expected to make corresponding swap payments to the Guarantor on the Interest Payment Date of the relevant Series or Tranche of Covered Bonds, which could be monthly, quarterly, semi-annual or annual.

Due to the mismatch in timing of payments under the Covered Bond Swap Agreements, on many Guarantor Payment Dates, the Guarantor will be required to make a payment to the Covered Bond Swap Provider without receiving a payment in return and therefore there can be

no netting of payments except on the date when the Covered Bond Swap Provider is required to make a payment to the Guarantor.

4.6 *No gross up on withholding tax*

In respect of payments made by the Guarantor under the Guarantee, to the extent that the Guarantor is required by law to withhold or deduct any present or future taxes of any kind imposed or levied by or on behalf of the Republic of Italy from such payments, the Guarantor will not be under an obligation to pay any additional amounts to Bondholders, irrespective of whether such withholding or deduction arises from existing legislation or its application or interpretation as at the relevant Issue Date or from changes in such legislation, application or official interpretation after the Issue Date.

4.7 *Change of counterparties*

The parties to the Programme Documents who receive and hold monies pursuant to the terms of such documents (such as the Italian Account Bank, the English Account Bank or the Principal Servicer and, upon accession to the Programme, each Additional Servicer(s)) are required to satisfy certain criteria in order to continue to receive and hold such monies.

These criteria include, *inter alia*, requirements in relation to the short-term and long-term, unguaranteed and unsecured ratings ascribed to such party by the Rating Agencies. If the party concerned ceases to satisfy the ratings criteria, then the rights and obligations of that party (including the right or obligation to receive monies, or to effect payments, on behalf of the Guarantor) may be required to be transferred to another entity which does satisfy the applicable criteria. In these circumstances, the terms agreed with the replacement entity may not be as favourable as those agreed with the original party pursuant to the Programme Documents.

In addition, should the applicable criteria cease to be satisfied, then the parties to the relevant Programme Document may agree to amend or waive certain of the terms of such document, including the applicable criteria, in order to avoid the need for a replacement entity to be appointed. The consent of Bondholders may not be required in relation to such amendments and/or waivers.

4.8 *Limited description of the Cover Pool*

Bondholders will not receive detailed statistics or information in relation to the Assets in the Cover Pool, because it is expected that the constitution of the Cover Pool will frequently change due to, for instance:

- the Issuer, or any Additional Seller(s), selling further Assets (or types of Assets, which are of a type that have not previously been comprised in the Cover Pool) to the Guarantor; and
- the Issuer, or any Additional Seller(s), repurchasing or substituting Assets in accordance with the Master Assets Purchase Agreement.

However, each Eligible Asset Loan will be required to meet the Eligibility Criteria and to conform with the representations and warranties set out in the Warranty and Indemnity Agreement — see "*Description of the Programme Documents — Warranty and Indemnity Agreement*". In addition, the Asset Coverage Test is intended to ensure that the Adjusted

Aggregate Asset Amount is an amount equal to or in excess of the aggregate outstanding principal amount of the Covered Bonds for so long as Covered Bonds remain outstanding and the Pre-Issuer Default Test Calculation Agent will provide monthly reports that will set out certain information in relation to the Asset Coverage Test.

Nonetheless, the main composition details of the Cover Pool are available on the Issuer's website (www.mps.it) by the publication of the Payment Report and updated on a quarterly basis pursuant to article 129, paragraph 7, of the CRD IV Regulation.

4.9 ***No due diligence on the Cover Pool***

None of the Joint-Arrangers, any Dealer, the Guarantor or the Representative of the Bondholders has undertaken or will undertake any investigations, searches or other actions in respect of any of the Eligible Assets or other Receivables. Instead, the Guarantor will rely on the Common Criteria, the Specific Criteria, the Additional Criteria and the relevant representations and warranties given by the relevant Seller(s) and, upon accession to the Programme, each Additional Seller(s), in the Warranty and Indemnity Agreement. The remedy provided for in the Warranty and Indemnity Agreement for breach of representation or warranty is for the relevant Seller(s) to indemnify and hold harmless the Guarantor in respect of losses arising from such breach and for the Guarantor to exercise an option right to retransfer the Assets in respect of which a breach of the representation or warranty has occurred which were previously assigned to it by the relevant Seller in accordance with the terms and conditions set out in the Warranty and Indemnity Agreement. Such obligations are not guaranteed by nor will they be the responsibility of any person other than the relevant Seller and neither the Guarantor nor the Representative of the Bondholders will have recourse to any other person in the event that the relevant Seller, for whatever reason, fails to meet such obligations. However, pursuant to the Cover Pool Management Agreement the assets which are not Eligible Assets comprised in the Cover Pool are excluded by the calculation of the Tests on the Portfolio and in case of breach of a Test due to such exclusion, either the Principal Seller and/or the Additional Seller(s) or, failing the latter to do so, the Issuer are obliged to integrate the Cover Pool.

4.10 ***Maintenance of the Cover Pool***

Pursuant to the terms of the Master Assets Purchase Agreement, the Principal Seller has agreed (and the Additional Seller(s) upon their accession to the Master Assets Purchase Agreement) to transfer New Portfolios to the Guarantor and the Guarantor has agreed to purchase New Portfolios in order to ensure that the Cover Pool is in compliance with (i) prior to delivery of a Guarantee Enforcement Notice, the Mandatory Tests and the Asset Coverage Test, and (ii) following the delivery of a Guarantee Enforcement Notice, the Mandatory Tests and the Amortisation Test. The Initial Portfolio Purchase Price was funded through the proceeds of the Term Loan granted under the Subordinated Loan Agreement between the Guarantor and BMPS and the New Portfolio Purchase Price will be funded through (A) (i) any Guarantor Available Funds available in accordance with the Pre-Issuer Default Principal Priority of Payments; (ii) to the extent the Guarantor Available Funds are not sufficient to pay the relevant New Portfolio Purchase Price, the proceeds of a Term Loan granted under the Subordinated Loan Agreements, for an amount equal to the portion of the New Portfolio Purchase Price not paid in accordance with item (i); (B) in certain circumstances, entirely by means of a Term Loan granted under the Subordinated Loan Agreements.

Under the terms of the Cover Pool Management Agreement, the Issuer has undertaken (and the Additional Seller(s) will undertake upon their accession to the Cover Pool Management Agreement) to ensure that on each Test Calculation Date the Cover Pool is in compliance with (i) prior to delivery of a Guarantee Enforcement Notice, the Mandatory Tests and the Asset Coverage Test, and (ii) following the delivery of a Guarantee Enforcement Notice, the Mandatory Tests and the Amortisation Test. If on any Test Calculation Date, the Cover Pool is not in compliance with the relevant Tests, then the Guarantor will require the Principal Seller and/or the Additional Seller to grant further Term Loans for the purposes of funding the purchase of New Portfolios, Top-Up Assets and/or other Eligible Assets, representing an amount sufficient to allow the relevant Tests to be met on the next following Test Calculation Date. If the Cover Pool is not in compliance with the relevant Tests on the next following Test Calculation Date, the Representative of the Bondholders will serve a Breach of Tests Notice on the Issuer and the Guarantor. The Representative of the Bondholders shall revoke the Breach of Tests Notice if on any Test Calculation Date, the relevant Tests are subsequently satisfied, unless any other Segregation Event has occurred and is outstanding and without prejudice to the obligation of the Representative of the Bondholders to serve a Breach of Tests Notice in the future. If, following the delivery of a Breach of Test Notice, the relevant Tests are not met on, or prior to, the Test Calculation Date falling at the end of the Test Remedy Period, the Representative of the Bondholders will serve a Guarantee Enforcement Notice on the Issuer and the Guarantor, unless a Programme Resolution is passed resolving to extend the Test Remedy Period.

If the aggregate collateral value of the Cover Pool has not been maintained in accordance with the terms of the Tests, that may affect the realisable value of the Cover Pool or any part thereof (both before and after the occurrence of a Guarantor Event of Default) and/or the ability of the Guarantor to make payments under the Guarantee. Failure to satisfy the Amortisation Test on any Test Calculation Date following the delivery of a Guarantee Enforcement Notice will cause all Covered Bonds becoming immediately Pass Through Series.

Subject to receipt of the relevant information from the Issuer, the Asset Monitor will perform specific agreed upon procedures set out in the Asset Monitor Engagement Letter entered into with the Issuer on 18 June 2010 relating, *inter alia*, to (i) the fulfilment of the eligibility criteria set out under Decree No. 310 with respect to the Eligible Assets and Top-Up Assets included in the Cover Pool; (ii) the calculation performed by the Issuer in respect of the Mandatory Tests; (iii) the compliance with the limits to the transfer of the Eligible Assets set out under Decree No. 310; and (iv) the effectiveness and adequacy of the risk protection provided by any Swap Agreement entered into in the context of the Programme. In addition, the Asset Monitor will, pursuant to the terms of the Asset Monitor Agreement, (i) prior to delivery of a Guarantee Enforcement Notice, verify, on behalf of the Issuer, the calculations performed by the Pre-Issuer Default Test Calculation Agent in respect of the Mandatory Tests and the Asset Coverage Test, and (ii) following the delivery of a Guarantee Enforcement Notice, verify, on behalf of the Guarantor, the calculations performed by the Post-Issuer Default Test Calculation Agent in respect of the Amortisation Test. See further "*Description of the Programme Documents – Asset Monitor Agreement*".

4.11 *Sale of the Eligible Assets and the Top-Up Assets following the delivery of a Guarantee Enforcement Notice*

Following a Guarantee Enforcement Notice, the Guarantor shall use its best effort to sell the Eligible Assets and/or Top-Up Assets (selected on a random basis) included in the Cover Pool

(the "**Selected Assets**") in order to make payments to the Guarantor's creditors including making payments under the Guarantee, see "*Description of the Programme Documents - Cover Pool Management Agreement*".

There is no guarantee that a buyer will be found to acquire the Selected Assets at the times required and there can be no guarantee or assurance as to the price which may be obtained for such Selected Assets, which may affect payments under the Guarantee.

In any case, after the delivery of a Guarantee Enforcement Notice the Guarantor (or the Principal Servicer on behalf of the Guarantor) shall use its best efforts to sell the Selected Assets in an amount as close as possible to the amount necessary to (i) redeem in full the Pass Through Series and/or the Earliest Maturing Covered Bonds (if maturating in the next succeeding six months), and (ii) to pay any interest amount due in respect of the Covered Bonds, net of any amounts standing to the credit of the Programme Accounts, **provided that**: (A) prior to and following the sale of such Selected Assets, the Amortisation Test is complied with; and (B) the Guarantor and the Portfolio Manager shall use their best effort to sell the Selected Assets, at the first attempt, at a price that ensures that the ratio between the aggregate Outstanding Principal Balance of the Cover Pool and the Outstanding Principal Amount of all Series of Covered Bonds remains unaltered following the sale of the relevant Selected Assets and repayment of the Pass Through Series and/or Earliest Maturing Covered Bonds (as the case may be).

If the proceeds of the sale of Selected Assets raised on the first attempt are insufficient to pay the amounts referred to above, the Guarantor shall repeat its attempt to sell Selected Assets every sixth months thereafter until the earlier of (i) the date on which the Pass Through Series of Covered Bonds have been redeemed in full and (ii) the date on which a Guarantor Default Notice is delivered.

If, on any Test Calculation Date following the service of a Guarantee Enforcement Notice (and, in case of a Guarantee Enforcement Notice delivered as a result of an Article 74 Event, prior to the service of an Article 74 Event Cure Notice), the Calculation Agent notifies, through the Test Performance Report, the Issuer, the Sellers, any Additional Seller and the Guarantor that the Amortisation Test is not met, the Guarantor shall use its best effort (but shall not be obliged) to sell all Eligible Assets and Top-Up Assets included in the Cover Pool, on a semi-annual basis starting from the date falling 30 calendar days after the date of the relevant Test Performance Report, **provided that** the proceeds of the sale (net of any costs connected thereto), together with any amount standing to the credit of the Accounts, are sufficient to redeem in full the Pass Through Series. For further details, see section headed "*Disposal of the Assets included in the Cover Pool following the delivery of a Guarantee Enforcement Notice and the breach of the Amortisation Test*".

4.12 *Liquidation of assets following the occurrence of a Guarantor Event of Default*

If a Guarantor Event of Default occurs and a Guarantor Default Notice is served on the Guarantor, then the Representative of the Bondholders will be entitled to enforce the Guarantee and use the proceeds from the liquidation of the Cover Pool towards payment of all secured obligations in accordance with the "*Post-Enforcement Priority of Payments*" described in the section entitled "*Cashflows*" below.

There is no guarantee that the proceeds of the liquidation of the Cover Pool will be in an amount sufficient to repay all amounts due to creditors (including the Bondholders) under the Covered

Bonds and the Programme Documents. If a Guarantor Default Notice is served on the Guarantor then the Covered Bonds may be repaid sooner or later than expected or not at all.

4.13 *Factors that may affect the realisable value of the Cover Pool or the ability of the Guarantor to make payments under the Guarantee*

Following the occurrence of certain Issuer Event of Default and the corresponding service of a Guarantee Enforcement Notice on the Issuer and on the Guarantor, the realisable value of the Eligible Assets and the Top-Up Assets comprised in the Cover Pool may be reduced (which may affect the ability of the Guarantor to make payments under the Guarantee) by:

- default by Borrowers in the payment of amounts due on their Mortgage Loans;
- an insolvency event or another event contractually indicated as event of default has occurred in respect to the issuer, of any Asset Backed Securities comprised in the Cover Pool pursuant to the relevant terms and conditions;
- changes to the lending criteria of the Issuer;
- set-off risks in relation to some types of Mortgage Loans in the Cover Pool;
- limited recourse to the Guarantor;
- possible regulatory changes by the Bank of Italy, CONSOB and other regulatory authorities;
- timing of a relevant sale of assets;
- regulations in Italy that could lead to some terms of the Mortgage Loans being unenforceable; and
- *status* of real estate market in the areas of operation of the Issuer.

Each of these factors is considered in more detail below. However, it should be noted that the Mandatory Tests, the Amortisation Test, the Asset Coverage Test and the Eligibility Criteria are intended to ensure that there will be an adequate amount of Eligible Assets and Top-Up Assets in the Cover Pool to enable the Guarantor to repay the Covered Bonds following an Issuer Event of Default, service of a Guarantee Enforcement Notice on the Issuer and on the Guarantor and accordingly it is expected (although there is no assurance) that assets comprised in the Cover Pool could be realised for sufficient values to enable the Guarantor to meet its obligations under the Guarantee.

4.14 *Value of the Cover Pool*

The Guarantee granted by the Guarantor in respect of the Covered Bonds will be backed by the Cover Pool and the recourse against the Guarantor will be limited to such assets. Since the economic value of the Cover Pool may increase or decrease, the value of the Guarantor's assets may decrease (for example if there is a general decline in property values). The Issuer makes no representation, warranty or guarantee that the value of a Real Estate Asset will remain at the same level as it was on the date of the origination of the related Mortgage Loan or at any other time. If the residential property market in Italy experiences an overall decline in property

values, the value of the Mortgage Loan could be significantly reduced and, ultimately, may result in losses to the Bondholders if such security is required to be enforced.

4.15 *No representations or warranties to be given by the Guarantor or the relevant Seller if Assets and their related Security Interests are to be sold*

After the service of a Guarantee Enforcement Notice on the Guarantor, but prior to service of a Guarantor Default Notice, the Guarantor shall, if necessary in order to effect timely payments under the Covered Bonds, sell the Assets and their related Security Interests included in the Cover Pool, subject to a right of pre-emption granted to the relevant Seller pursuant to the terms of the Master Assets Purchase Agreement and of the Cover Pool Management Agreement. In respect of any sale of Assets and their related Security Interests to third parties, however, the Guarantor will not provide any warranties or indemnities in respect of such Assets and related Security Interests and there is no assurance that the relevant Seller would give or repeat any warranties or representations in respect of the Assets and related Security Interests or if it has not consented to the transfer of such warranties or representations. Any representations or warranties previously given by the relevant Seller in respect of the Mortgage Loans in the Portfolios may not have value for a third party purchaser if the relevant Seller is then insolvent. Accordingly, there is a risk that the realisable value of the Assets and related Security Interests could be adversely affected by the lack of representations and warranties which in turn could adversely affect the ability of the Guarantor to meet its obligations under the Guarantee.

4.16 *Claw-back of the sales of the Receivables*

assignments executed under Law 130 are subject to revocation on bankruptcy under article 67 of the Bankruptcy Law but only in the event that the declaration of bankruptcy of the relevant Seller is made within three months of the covered bonds transaction (or of the purchase of the Cover Pool) or, in cases where paragraph 1 of article 67 applies (i.e. if the payments made or the obligations assumed by the bankrupt party exceed by more than one-fourth the consideration received or promised), within six months of the covered bonds transaction (or of the purchase of the Cover Pool).

4.17 *Default by borrowers in paying amounts due on their Mortgage Loans*

Borrowers may default on their obligations due under the Mortgage Loans for a variety of reasons. The Mortgage Loans are affected by credit, liquidity and interest rate risks. Various factors influence mortgage delinquency rates, prepayment rates, repossession frequency and the ultimate payment of interest and principal, such as changes in the national or international economic climate, regional economic or housing conditions, changes in tax laws, interest rates, inflation, the availability of financing, yields on alternative investments, political developments and government policies. Other factors in borrowers' individual, personal or financial circumstances may affect the ability of borrowers to repay the Mortgage Loans. Loss of earnings, illness, divorce and other similar factors may lead to an increase in default by and bankruptcies of borrowers, and could ultimately have an adverse impact on the ability of borrowers to repay the Mortgage Loans. In addition, the ability of a borrower to sell a property given as security for a Mortgage Loan at a price sufficient to repay the amounts outstanding under that Mortgage Loan will depend upon a number of factors, including the availability of buyers for that property, the value of that property and property values in general at the time.

The recovery of amounts due in relation to Defaulted Receivables will be subject to the effectiveness of enforcement proceedings in respect of the Cover Pool which in Italy can take

a considerable time depending on the type of action required and where such action is taken and on several other factors, including the following: proceedings in certain courts involved in the enforcement of the Mortgage Loans and Mortgages may take longer than the national average; obtaining title deeds from land registries which are in process of computerising their records can take up to two or three years; further time is required if it is necessary to obtain an injunction decree (*decreto ingiuntivo*) and if the relevant Debtor raises a defence to or counterclaim in the proceedings; and it takes an average of six to eight years from the time lawyers commence enforcement proceedings until the time an auction date is set for the forced sale of any Real Estate Asset.

Law number 302 of 3 August 1998 allowed notaries, accountants and lawyers to conduct certain stages of the enforcement procedures in place of the courts in order to reduce the length of enforcement proceedings by between two and three years.

4.18 *Insurance coverage*

All Mortgage Loan Agreements provide that the relevant Real Estate Assets must be covered by an Insurance Policy issued by leading insurance companies approved by the relevant Seller. There can be no assurance that all risks that could affect the value of the Real Estate Assets are or will be covered by the relevant Insurance Policy or that, if such risks are covered, the insured losses will be covered in full. Any loss incurred in relation to the Real Estate Assets which is not covered (or which is not covered in full) by the relevant Insurance Policy could adversely affect the value of the Real Estate Assets and the ability of the relevant Debtor to repay the relevant Mortgage Loan. There is no concentration of insurance policies that are material to the transaction.

4.19 *Changes to the lending criteria of the relevant Seller*

Each of the Mortgage Loans originated by the relevant Seller will have been originated in accordance with its lending criteria at the time of origination. Each of the Mortgage Loans sold to the Guarantor by the relevant Seller, but originated by a person other than the relevant Seller (a "**Third Party Originator**"), will have been originated in accordance with the lending criteria of such Third Party Originator at the time of origination. In the event of the sale or transfer of any Mortgage Loans to the Guarantor, the Issuer will warrant that (a) such Mortgage Loans as were originated by it were originated in accordance with the Issuer's lending criteria applicable at the time of origination and (b) such Mortgage Loans as were originated by a Third Party Originator, were originated in accordance with the relevant Third Party Originator's lending criteria applicable at the time of origination. The Issuer retains the right to revise its lending criteria from time to time subject to the terms of the Master Assets Purchase Agreement. Other Third Party Originators may additionally revise their lending criteria at any time. However, if such lending criteria change in a manner that affects the creditworthiness of the Mortgage Loans, that may lead to increased defaults by Borrowers and may affect the realisable value of the Cover Pool and the ability of the Guarantor to make payments under the Guarantee. However, Defaulted Receivables having Instalments not paid for more than 180 calendar days in the Cover Pool will be given a zero weighting for the purposes of the calculation of the Mandatory Tests, the Amortisation Test, the Asset Coverage Test and the Amortisation Test.

4.20 *Legal risks relating to the Mortgage Loans*

The ability of the Guarantor to recover payments of interest and principal from the Mortgage Loans is subject to a number of legal risks. These include the risks set out below.

4.20.1 Set-off risks

The assignment of receivables under Law 130 is governed by article 58, paragraph 2, 3 and 4, of the Consolidated Banking Act. According to such provision, such assignment becomes enforceable against the relevant debtors as of the later of (i) the date of the publication of the notice of assignment in the Official Gazette of the Republic of Italy (*Gazzetta Ufficiale della Repubblica Italiana*), and (ii) the date of registration of the notice of assignment in the local Companies' Registry. Consequently, the rights of the Guarantor may be subject to the direct rights of the Borrowers against the Issuer including rights of set-off on claims arising existing prior to notification in the Official Gazette and registration at the local companies' registry. The notification in the Official Gazette and the registration at the local companies' registry would be not sufficient to assure that such assignment becomes enforceable against Debtors which are not resident in Italy.

The exercise of set-off rights by Borrowers may adversely affect any sale proceeds of the Cover Pool and, ultimately, the ability of the Guarantor to make payments under the Guarantee.

4.20.2 Usury Law

The interest payments and other remuneration paid by the Borrowers under the Mortgage Loans are subject to Italian law No. 108 of 7 March 1996 (the "**Usury Law**"), which introduced legislation preventing lenders from applying interest rates equal to, or higher than, rates (the "**Usury Rates**") set every three months on the basis of a decree issued by the Italian Treasury (the last such decree having been issued on 21 December 2018). In addition, even where the applicable Usury Rates are not exceeded, interest and other benefits and/or remuneration may be held to be usurious if: (a) they are disproportionate to the amount lent (taking into account the specific situations of the transaction and the average rate usually applied for similar transactions); and (b) the person who paid or agreed to pay them was in financial and economic difficulties. The provision of usurious interest, benefits or remuneration has the same consequences as non-compliance with the Usury Rates.

The Italian Government, with law decree No. 394 of 29 December 2000, converted into law by law No. 24 of 28 February 2001 (the "**Usury Law Decree**" and, together with the Usury Law, the "**Usury Regulations**"), has established, *inter alia*, that interest is to be deemed usurious only if the interest rate agreed by the parties exceeds the Usury Rate applicable at the time the relevant agreement is reached. The Usury Law Decree also provides that, as an extraordinary measure due to the exceptional fall in interest rates in the years 1998 and 1999, interest rates due on instalments payable after 31 December 2000 on loans already entered into on the date on which the Usury Law Decree came into force (such date being 31 December 2000) are to be substituted with a lower interest rate fixed in accordance with parameters determined by the Usury Law Decree.

The Italian Constitutional Court has rejected, with decision No. 29/2002 (deposited on 25 February 2002), a constitutional exception raised by the Court of Benevento (2 January 2001) concerning article 1, paragraph 1, of the Usury Law Decree (now reflected in article 1, paragraph 1 of the abovementioned conversion law No. 24 of 28

February 2001). In so doing, it has confirmed the constitutional validity of the provisions of the Usury Law Decree which hold that interest rates may be deemed to be void due to usury only if they infringe Usury Regulations at the time they are agreed between the borrower and the lender and not at the time such rates are actually paid by the borrower.

According to recent court precedents, the remuneration of any given financing must be below the applicable Usury Rates from time to time applicable. Based on this recent evolution of case law on the matter, it might constitute a breach of the Usury Regulations if the remuneration of a financing is lower than the applicable Usury Rates at the time the terms of the financing were agreed but becomes higher than the applicable Usury Rates at any point in time thereafter (see, for instance, *Cassazione* of 11 January 2013 No. 603). However, it is worth mentioning that, by more recent decisions, the Italian Supreme Court has clearly stated that, in order to establish if the interest rate exceeds the Usury Rate, it has to be considered the interest rate agreed between the parties at the time of the signing of the financing agreement, regardless of the time of the payment of such interest (see, for instance, *Cassazione* 27 September 2013, No. 22204; *Cassazione* 25 September 2013, No. 21885; Cassazione 19 October 2017, No 24675).

In addition, several recent court precedents have stated that default interest rates are relevant and must be taken into account when calculating the aggregate remuneration of any given financing for the purposes of determining its compliance with the applicable Usury Rates (see, for instance, *Cassazione* 9 January 2013 No. 350).

4.20.3 **Compounding of interest (*Anatocismo*)**

Pursuant to article 1283 of the Italian Civil Code, in respect of a monetary claim or receivable may be capitalised after a period of not less than six months only (a) under an agreement subsequent to such accrual or (b) from the date when any legal proceedings are commenced in respect of that monetary claim or receivable. Article 1283 of the Italian civil code allows derogation from this provision in the event that there are recognised customary practices (*usi*) to the contrary.

Banks and financial companies in the Republic of Italy have traditionally capitalised accrued interest on a quarterly basis on the grounds that such practice could be characterised as a customary practice (*uso normativo*). However, a number of recent judgments from Italian courts (including judgments from the Italian Supreme Court (*Corte di Cassazione*) No. 2374/99, No. 2593/2003, No. 21095/2004, No. 4094/2005 and No. 10127/2005) have held that such practices are not *uso normativo*. Consequently, if customers of the relevant Seller were to challenge this practice and such interpretation of the Italian civil code were to be upheld before other courts in the Republic of Italy, there could be a negative effect on the returns generated from the Mortgage Loans.

In this respect, it should be noted that article 25, paragraph 3, of Legislative Decree No. 342 of 4 August 1999 ("**Law No. 342**"), enacted by the Italian Government under a delegation granted pursuant to law No. 142 of 19 February 1992, has considered the capitalisation of accrued interest (*anatocismo*) made by banks prior to the date on which it came into force (19 October 1999) to be valid. After such date, the capitalisation of

accrued interest is no longer possible upon the terms established by a resolution of the CICR issued on 22 February 2000. Law No. 342 has been challenged and decision No. 425 of 17 October 2000 of the Italian Constitutional Court has declared as unconstitutional under the provisions of Law No. 342 regarding the validity of the capitalisation of accrued interest made by banks prior to the date on which Law No. 342 came into force.

As a consequence thereof, to the extent the Seller(s) were to capitalise interests in violation of the principle stated by article 1283 of the Italian civil code, a Debtor could challenge such practice and this could have a negative effect on the returns generated from the contracts.

Recently, article 31 of Law Decree Competitività, has amended article 120, paragraph 2, of the Consolidated Banking Act by providing that interest shall not accrue on capitalised interests. In addition, on 8 August 2016, the decree No. 343 of 3 August 2016 issued by the Minister of Economy and Finance, in his quality of President of the CICR, implementing article 120, paragraph 2, of the Banking Law, has been published.

However, prospective bondholders should note that under the terms of the Warranty and Indemnity Agreement, the Seller has represented that the Mortgage Loan Agreements have been executed and performed in compliance with the provisions of article 1283 of the Italian civil code and has furthermore undertaken to indemnify the Issuer from and against all damages, loss, claims, liabilities, costs and expenses incurred by it arising from the non-compliance of the terms and conditions of any Mortgage Loan Agreement with the Italian law provisions concerning the capitalisation of accrued interest.

Furthermore, there have been two rulings of Italian Courts that have held that the calculations applicable to the instalments under certain mortgage loan agreements that were based upon the amortisation method known as "French amortisation" (i.e. mortgage loans with fixed instalments, made up of an amount of principal (that progressively increases) and an amount of interest (that decreases as repayments are calculated with a specific formula)), triggered a violation of the Italian law provisions on the limitations on the compounding of interest (*divieto di anatocismo*). However, it should be pointed out that these were isolated judgements, still under appeal, and more recently various court rulings on the same matter have declared that the "French amortisation" method does not entail an illegal compounding element. However the Issuer is not able to exclude the risk that in the future other judgments may follow the two isolated decisions described above.

4.20.4 Consumer Credit Legislation

In September 2002, the European Commission published a proposal for a directive of the European Parliament and of the Council on the harmonisation of the laws, regulations and administrative provisions of the Member States concerning credit for consumers and surety agreements entered into by consumers.

There was significant opposition from the European Parliament to the original form of the proposed directive, and to an amended form of the proposed directive published in October 2004. In October 2005, the European Commission published a second revised proposal for the directive.

On 23 April 2009 the European Parliament and the Council issued the 2008/48/EC (the "**Consumer Credit Directive**").

During the course of 2010 Member States have implemented the relevant provisions through law and / or regulations.

On 4 September 2010 the Republic of Italy adopted the Legislative Decree No. 141 of 13 August 2010 published in the Official Gazette No. 207, which was introduced in order to implement the Consumer Credit Directive and on 9 February 2011 the Bank of Italy issued the relevant implementing regulations.

The new legislation covers consumer loans between €200 and €75,000 which are not required to be repaid within a month. It only covers credit contracts, not guarantors and other aspects of credit agreement law. The legislation applies only to loan contracts on which interest is paid, and not products such as deferred payment cards (charge cards) and does not cover the granting of credit secured on land or made to finance the acquisition or retention of property rights.

The legislation provides for the right of withdrawal for the consumers; this right can be exercised within 14 days after the conclusion of the contract or, if later, from the moment the consumer receives all the conditions and contract information. In addition, the consumer has the right to repay early at any time in whole or in part the amount financed; thus, being entitled to a reduction of the total credit amount equal to interest and costs due for the residual life of the contract. Furthermore, in relation to loans granted for the purpose of financing agreements for the supply of goods and services, the consumer, in the event that there is a failure (which classifies as a considerable breach under Italian law) of the supplier of goods and/or services, has the right to terminate the loan agreement and the contract for supply of goods and / or services.

It is not certain what effect the adoption and implementation of the directive would have on the Issuer (or any Additional Seller(s)) and its respective businesses and operations.

4.20.5 Law No. 3 of 27 January 2012

Law No. 3 of 27 January 2012, published in the Official Gazette of the Republic of Italy No. 24 of 30 January 2012 (the "**Over Indebtedness Law**") has become effective as of 29 February 2012 and introduced a new procedure, by means of which, *inter alia*, debtors who (i) are in a state of over indebtedness (*sovraindebitamento*), and (ii) cannot be subject to bankruptcy proceedings or other insolvency proceedings pursuant to the Italian Bankruptcy Law, may request to enter into a debt restructuring agreement (*accordo di ristrutturazione*) with their respective creditors, **further provided that** (iii) in respect of future proceedings, the relevant debtor has not made recourse to the debt restructuring procedure enacted by the Over Indebtedness Law during the preceding 3 years.

The Over Indebtedness Law provides that the relevant debt restructuring agreement, subject to the relevant court approval, shall entail, *inter alia* (i) the renegotiation of the payments' terms with the relevant creditors; (ii) the full payment of the secured creditors; (iii) the full payment of any other creditors which are not part of the debt restructuring agreement (provided that the payments due to any creditors which have

not approved the debt restructuring agreement, including any secured creditors, may be suspended for up to one year); and (iv) the possibility to appoint a trustee for the administration and liquidation of the debtor's assets and the distribution to the creditors of the proceeds of the liquidation.

Should any Debtors enter into such debt restructuring agreement (be it with the Issuer or with any other of its creditors), the Issuer could be subject to the risk of having the payments due by the relevant Debtor suspended for up to one year.

4.20.6 Mortgage Credit Directive

Directive 2014/17/EU of the European Parliament and of the Council of 4 February 2014 on credit agreements for consumers relating to residential immovable property and amending Directives 2008/48/EC and 2013/36/EU and Regulation (EU) No 1093/2010 (the "**Mortgage Credit Directive**") sets out a common framework for certain aspects of the laws, regulations and administrative provisions of the Member States concerning agreements covering credit for consumers secured by a mortgage or otherwise relating to residential immovable property. The Mortgage Credit Directive provides for, amongst other things:

- standard information in advertising, and standard pre-contractual information;
- adequate explanations to the borrower on the proposed credit agreement and any ancillary service;
- calculation of the annual percentage rate of charge in accordance with a prescribed formula;
- assessment of creditworthiness of the borrower;
- a right of the borrower to make early repayment of the credit agreement; and
- prudential and supervisory requirements for credit intermediaries and non-bank lenders.

The Mortgage Credit Directive came into effect on 20 March 2014 and was required to be implemented in Member States by 21 March 2016.On 1 June 2015, in accordance with article 18, article 20(1) and article 28 of the Mortgage Credit Directive, the EBA published its final Guidelines on creditworthiness assessment, as well as its final Guidelines on arrears and foreclosure, that support the national implementation by Member States of the Mortgage Credit Directive.

In Italy, the Government has approved the Legislative Decree No. 72 of 21 April 2016, implementing the Mortgage Credit Directive and published on the Official Gazette of the Republic of Italy on 20 May 2016 (the "**Mortgage Legislative Decree**"), which introduced article 120-*quinquesdecies* of the Consolidated Banking Act.

The Mortgage Legislative Decree applies to (i) residential mortgage loans and (ii) loans relating to the purchase or preservation of the property right on a real estate asset.

The Mortgage Legislative Decree sets forth a regulatory framework of protection for consumers, including certain rules of correctness, diligence, information undertakings and transparency applicable to lenders and intermediaries which offer and disburse loans to consumers.

Furthermore, under the Mortgage Legislative Decree, the parties to a loan agreement may agree, at the time the relevant loan agreement is entered into, that should the borrower fail to repay an amount at least equal to eighteen loan instalments, the transfer of the title to the lender either over the mortgaged real estate asset or the proceeds deriving from the sale of such real estate asset extinguishes in full the repayment obligation of the borrower under the relevant loan agreement even if the value of the relevant real estate asset or the amount of proceeds deriving from the sale of such real estate asset is lower than the remaining amount due by the borrower under the loan agreement.

On the other hand, if the value of the real estate asset or the proceeds deriving from the sale of the real estate asset are higher than the remaining amount due by the borrower under the loan agreement, the excess amount shall be paid or returned to the borrower.

On 29 September 2016, the Ministry of Economy and Finance issued the decree No. 380 implementing the provisions of the Mortgage Legislative Decree.

Given the novelty of this new legislation and the absence of any jurisprudential interpretation, no assurance can be given that Mortgage Legislative Decree will not adversely affect the ability of the Guarantor to make payments under the Guarantee.

SUPPLEMENTS, FINAL TERMS AND FURTHER PROSPECTUSES

The Issuer and the Guarantor have undertaken that, for the duration of the Programme, (i) in the event that a significant new factor, material mistake or inaccuracy relating to the information included in the Prospectus arises or is noted which is capable of affecting the assessment of any Covered Bonds which may be issued under the Programme, and/or (ii) on or before each anniversary of the date of this Prospectus, it shall prepare a supplement to this Prospectus (following consultation with the Joint-Arrangers which will consult with the Dealer(s)) or, as the case may be, publish a replacement Prospectus for use in connection with any subsequent offering of the Covered Bonds and shall supply to each Dealer any number of copies of such supplement as a Dealer may reasonably request.

In addition, the Issuer and the Guarantor may agree with the Dealer(s) to issue Covered Bonds in a form not contemplated in the section entitled "*Form of Final Terms*". To the extent that the information relating to that Series or Tranche of Covered Bonds constitutes a significant new factor in relation to the information contained in this Prospectus, a separate prospectus specific to such Series or Tranche ("**Drawdown Prospectus**") will be made available and will contain such information.

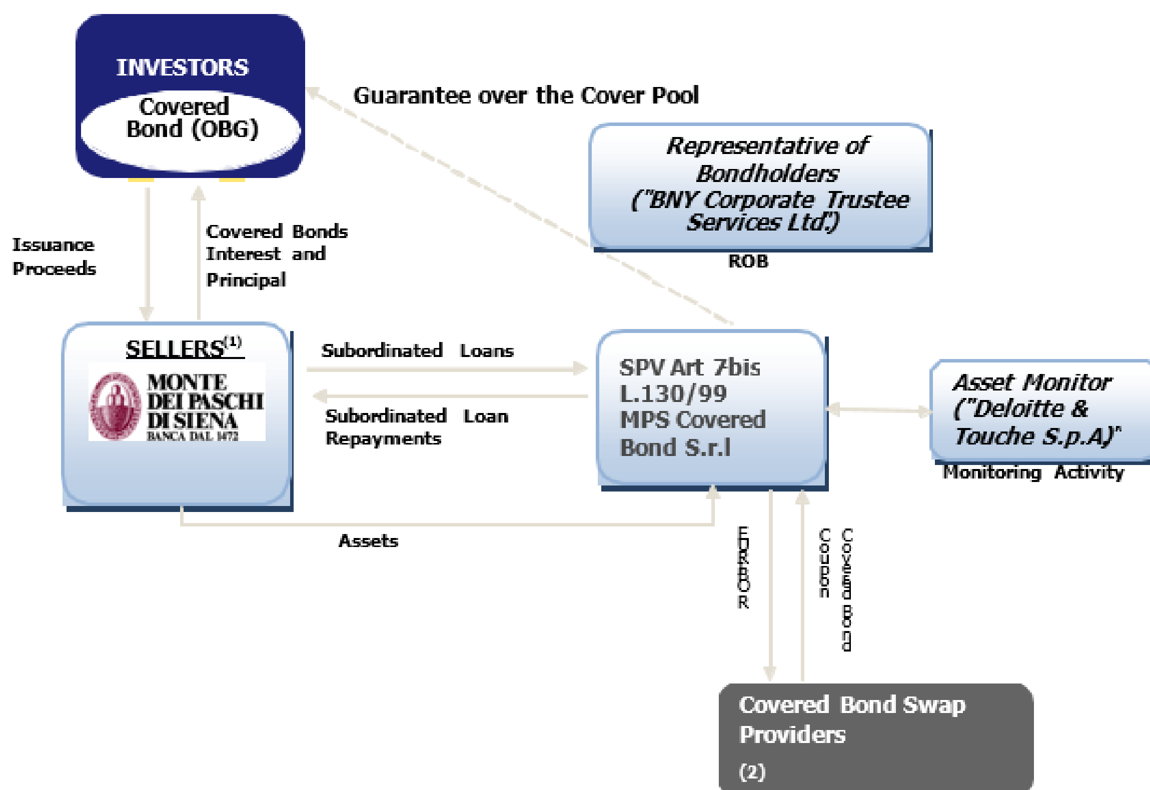
The terms and conditions applicable to any particular Series or Tranche of Covered Bonds will be the conditions set out in the section entitled "*Conditions of the Covered Bonds*", as completed in the relevant Final Terms or amended and/or replaced to the extent described in the Drawdown Prospectus. In the case of a Series or Tranche of Covered Bonds which is the subject of a Drawdown Prospectus, each reference in this Prospectus to information being completed in the relevant Final Terms shall be read and construed as a reference to such information being specified or identified in the relevant Drawdown Prospectus unless the context requires otherwise.

Each Drawdown Prospectus will be constituted either (1) by a single document containing the necessary information relating to the Issuer and the Guarantor and the relevant Covered Bonds or (2) by a registration document containing the necessary information relating to the Issuer and/or the Guarantor, a securities note containing the necessary information relating to the relevant Covered Bonds and, if applicable, a summary note.

STRUCTURE OVERVIEW

The information in this section is an overview of the structure relating to the Programme and does not purport to be complete. The information is taken from, and is qualified in its entirety by, the remainder of this Prospectus. Words and expressions defined elsewhere in this Prospectus shall have the same meanings in this overview. An index of certain defined terms used in this document is contained at the end of this Prospectus.

Structure Diagram



Notes:

(1) *Banca Monte dei Paschi di Siena S.p.A. acting as Principal Seller. Additional Seller might be any other bank which is a member of the Group and wishes to sell Assets to the Guarantor within the scope of the Programme, subject to satisfaction of certain conditions and which, for such purpose, shall enter into, inter alia, the Master Asset purchase Agreement and any other required Programme document.*

(2) *One or more suitably rated entities for the relevant Series or Tranche of Covered Bonds.*

Structure Overview

- *Programme:* Under the terms of the Programme, the Issuer will issue Covered Bonds to Bondholders on each Issue Date. The Covered Bonds will be direct, unsubordinated, unsecured and unconditional obligations of the Issuer guaranteed by the Guarantor under the Guarantee.

- *Guarantor:* the Guarantor is a corporate entity separate and distinct from the Issuer and maintains corporate records and books of account separate from those of the Issuer. The authorised and issued quota capital of the Guarantor is €10,000.00 and is held by Banca Monte dei Paschi di Siena S.p.A., as to 90 per cent. and SVM Securitisation Vehicles Management S.r.l. as to 10 per cent. The Guarantor has issued no voting securities other than its quotas. For further details, see section "*The Guarantor*" below.

- *Guarantee*: In accordance with the provisions of the Law 130 and Decree No. 310, the Guarantor has provided a first demand, unconditional, autonomous and irrevocable guarantee, for the benefit of the Bondholders in accordance with the Programme Documents, for the purpose of guaranteeing the payments owed by the Issuer to the Bondholders. Under the terms of the Guarantee, the Guarantor has agreed to pay an amount equal to the Guaranteed Amounts when the Guaranteed Amounts become Due for Payment. The obligations of the Guarantor under the Guarantee constitute direct, unconditional, unsubordinated and limited recourse obligations of the Guarantor, collateralised by the Cover Pool as provided under Law 130. The recourse to the Guarantor under the Guarantee will be limited to the Cover Pool. Payments made by the Guarantor under the Guarantee will be made subject to, and in accordance with, the relevant Priority of Payments, as applicable (each as defined below).

- *Subordinated Loan Agreements*: Under the terms of the relevant Subordinated Loan Agreements, the Principal Seller and the Additional Seller(s), in their capacity, respectively, as Principal Subordinated Lender and Additional Subordinated Lender, will from time to time grant to the Guarantor one or more Term Loans in the form of (i) a Programme Term Loan, or (ii) a Floating Interest Term Loan, or (iii) a Fixed Interest Term Loan, for the purposes of funding the payments described in the paragraph headed "*The proceeds of Term Loans*" below. Prior to service of a Breach of Tests Notice or a Guarantee Enforcement Notice, each Term Loan may be repaid by the Guarantor on each Guarantor Payment Date according to the Pre-Issuer Default Principal Priority of Payments within the limits of the then Guarantor Available Funds. Following the service of a Breach of Tests Notice, there shall be no further payments to any Subordinated Lender under any relevant Term Loan(s) as long as a Breach of Tests Cure Notice is delivered in accordance with the Programme Documents (other than where necessary for the purpose of complying with the 15% Limit in accordance with the provisions of Decree 310 and the Bank of Italy Regulations as better specified in the Cover Pool Management Agreement (and to the extent that no purchase of Eligible Assets is possible to this effect in accordance with the provisions of the Master Assets Purchase Agreement and the Cover Pool Management Agreement and/or in compliance with the limits set out in the Bank of Italy Regulations)). Following the service of a Guarantee Enforcement Notice, the Term Loans shall be repaid within the limits of the then Guarantor Available Funds subject to the repayment in full (or, prior to the service of a Guarantor Default Notice, the accumulation of funds sufficient for the purpose of such repayment) of all Covered Bonds. Each Term Loan that has been repaid pursuant to the terms of the Subordinated Loan Agreement will be available for redrawing during the Subordinated Loan Availability Period within the limits of the Total Commitment. Payments by the Issuer of amounts due under the Covered Bonds are not conditional upon receipt by the Issuer of payments from the Guarantor pursuant to the Subordinated Loan Agreement. Amounts owed by the Guarantor under the Subordinated Loan Agreement will be subordinated to amounts owed by the Guarantor under the Guarantee.

- *The proceeds of Term Loans*: Each Programme Term Loan will be granted for the purpose of, *inter alia*, (i) funding the purchase price of the Eligible Assets included in the Initial Portfolio and in any New Portfolios to be transferred to the Guarantor pursuant to the Master Assets Purchase Agreement, and/or (ii) remedying any breach of the Tests and complying with the 15% Limit with respect to the Top-Up Assets, and/or (iii) funding the purchase price of the Eligible Assets and Top-Up Assets to be transferred to the Guarantor pursuant to the Master Assets Purchase Agreement for overcollateralisation purposes and/or (iv) funding the redemption of a Floating Interest Term Loan or Fixed Interest Term Loan at the Maturity Date (or Extended Maturity Date, if applicable) of the Corresponding Series or Tranche of Covered Bonds.

Each Floating Interest Term Loan or Fixed Interest Term Loan will be granted for the purpose of, *inter alia*, (i) funding the purchase price of the Eligible Assets included in any New Portfolios to be transferred to the Guarantor in connection with the issue of a Corresponding Series or Tranche of Covered Bonds to be issued under the Programme, and/or (ii) reimbursing (also in part) any Term Loan for an amount equal to the Corresponding Series or Tranche of Covered Bonds.

- *Cashflows*: Prior to service of a Guarantee Enforcement Notice on the Guarantor and **provided that** no Breach of Tests Notice has been served and has not been revoked through the delivery of a Breach of Tests Cure Notice, the Guarantor will:

  - apply Interest Available Funds to pay interest and/or Premium on the relevant Term Loans, but only after payment of certain items ranking higher in the Pre-Issuer Default Interest Priority of Payments (including, but not limited to, certain expenses and any amount due and payable under the Swap Agreements). For further details of the Pre-Issuer Default Interest Priority of Payments, see "*Cashflows*" below; and

  - apply Principal Available Funds towards repaying Term Loans but only after payment of certain items ranking higher in the relevant Pre-Issuer Default Principal Priority of Payments. For further details of the Pre-Issuer Default Principal Priority of Payments, see "*Cashflows*" below.

  After the service of a Breach of Tests Notice, payments due under the Covered Bonds will continue to be made by the Issuer until a Guarantee Enforcement Notice has been delivered, and the Guarantor will make payments in accordance with the Pre-Issuer Default Interest Priority of Payments and the Pre-Issuer Default Principal Priority of Payments, **provided that** there shall be no further payments (whether of interest or principal) to a Subordinated Lender under any relevant Term Loan and the purchase price for any Eligible Assets or Top-Up Assets to be acquired by the Guarantor shall be paid only by using the proceeds of a Term Loan.

  Following service on the Issuer and on the Guarantor of a Guarantee Enforcement Notice (but prior to a Guarantor Event of Default and service of a Guarantor Default Notice on the Guarantor) the Guarantor will use all Guarantor Available Funds to pay Guaranteed Amounts when the same shall become Due for Payment, subject to paying certain higher ranking obligations of the Guarantor in the Guarantee Priority of Payments. In such circumstances, the Principal Seller and the Additional Seller(s), will only be entitled to receive payment from the Guarantor of interest, Premium (if any)

and repayment of principal under the relevant Term Loans after all amounts due under the Guarantee in respect of the Covered Bonds have been paid in full or have otherwise been provided for.

Following the occurrence of a Guarantor Event of Default and service of a Guarantor Default Notice on the Guarantor, the Covered Bonds will become immediately due and repayable at their Early Termination Amount and the Representative of the Bondholders, on behalf of the Bondholders, shall have a claim against the Guarantor under the Guarantee for an amount equal to the Early Termination Amounts, together with accrued interest and any other amount due under the Covered Bonds (other than additional amounts payable as gross up) and any Guarantor Available Funds will be distributed according to the Post-Enforcement Priority of Payments, as to which see section "*Cashflows*" below.

- *Mandatory Tests*: The Assets of the Guarantor have characteristics that demonstrate capacity to produce funds to service any payments due and payable on the Covered Bonds. The Programme provides that the Assets of the Guarantor are subject to certain tests intended to ensure that the Guarantor can meet its obligations under the Guarantee as set out under article 3 of Decree No. 310 and to demonstrate their capacity to produce funds to service any payments due and payable under the Covered Bonds upon enforcement of the Guarantee. Accordingly, until the delivery of a Guarantee Enforcement Notice, the Issuer, the Principal Seller, the Additional Seller(s), and in any case the Issuer, must always ensure that the following tests are satisfied on each Quarterly Test Calculation Date:

    - *Nominal Value Test*: the aggregate Outstanding Principal Balance of the Cover Pool shall be higher than or equal to the Principal Amount Outstanding of all Series or Tranche of Covered Bonds issued under the Programme and not cancelled or redeemed in full in accordance with their Conditions as at the relevant Test Calculation Date, **provided that**, prior to the delivery of a Guarantee Enforcement Notice, such test will always be deemed met to the extent that the Asset Coverage Test (as defined below) is met as of the relevant Quarterly Test Calculation Date;

    - *Net Present Value Test*: the Net Present Value Test is intended to ensure that the net present value of the Cover Pool (including the payments of any nature expected to be received by the Guarantor with respect to any Swap Agreement), net of the transaction costs to be borne by the Guarantor (including the payments of any nature expected to be borne or due with respect to any Swap Agreement) shall be higher than or equal to the net present value of all Series or Tranche of Covered Bonds issued under the Programme and not cancelled or redeemed in full in accordance with their Conditions as at the relevant Quarterly Test Calculation Date;

    - *Interest Coverage Test*: the Interest Coverage Test is intended to ensure that the amount of interest and other revenues generated by the assets included in the Cover Pool, (including the payments of any nature expected to be received by the Guarantor with respect to any Swap Agreement) net of the costs borne by the Guarantor (including the payments of any nature expected to be borne or due with respect to any Swap Agreement), shall be higher than the amount of

interest due on all Series or Tranche of Covered Bonds issued under the Programme and not cancelled or redeemed in full in accordance with their Conditions as at the relevant Quarterly Test Calculation Date.

For a more detailed description, see section "*Credit structure - Tests*" below.

- *Asset Coverage Test*: In addition to the Mandatory Tests, the Programme provides that until the delivery of a Guarantee Enforcement Notice, the Issuer, the Principal Seller, any Additional Seller(s), and in any case the Issuer, must always ensure the Asset Coverage Test is satisfied on each Test Calculation Date. The Asset Coverage Test is intended to ensure that on the relevant Test Calculation Date, the Adjusted Aggregate Asset Amount (as defined in section "*Credit Structure*" below) is at least equal to the aggregate Principal Amount Outstanding of the Covered Bonds. The Adjusted Aggregate Asset Amount is the amount calculated pursuant to the formula set out in the Cover Pool Management Agreement. For a more detailed description, see section "*Credit structure - Tests*" below.

- *Amortisation Test*: Following the delivery of a Guarantee Enforcement Notice, the Amortisation Test is intended to ensure that, on each Test Calculation Date, the outstanding principal balance of the Cover Pool (which for such purpose is considered as an amount equal to the Amortisation Test Aggregate Asset Amount (as defined in section "*Credit structure - Tests*" below)) is higher than or equal to the Euro Equivalent of the Principal Amount Outstanding of all Series or Tranche of Covered Bonds issued under the Programme and not cancelled or redeemed in full in accordance with their Conditions at the relevant Test Calculation Date. Failure to satisfy the Amortisation Test on any Test Calculation Date following the delivery of a Guarantee Enforcement Notice will cause all Covered Bonds becoming immediately Pass Through Series. For a more detailed description, see section "*Credit structure - Tests*" below.

- *Extendable obligations under the Guarantee*: If (i) a Guarantee Enforcement Notice has been served on the Issuer and the Guarantor as a result of the Issuer having failed to pay, in whole or in part, the Guaranteed Amounts on the Maturity Date for such Series of Covered Bonds and, on the relevant Extension Determination Date, the Guarantor has insufficient funds to pay, in accordance with the Guarantee Priority of Payments, the Guaranteed Amounts in respect of such Series of Covered Bonds; or (ii) a Guarantee Enforcement Notice has been served on the Issuer and the Guarantor following the occurrence of an Issuer Event of Default (other than the Issuer Event of Default referred to in paragraph (i) above) and, on the Maturity Date for such Series of Covered Bonds, the Guarantor has insufficient funds to pay, in accordance with the Guarantee Priority of Payments, the Guaranteed Amounts in respect of such Series of Covered Bonds, then the relevant Series or Tranche of Covered Bonds shall become a Pass Through Series.

  Furthermore, if, on any Test Calculation Date following the service of a Guarantee Enforcement Notice (and, in case of a Guarantee Enforcement Notice delivered as a result of an Article 74 Event, prior to the service of an Article 74 Event Cure Notice), the Calculation Agent notifies, through the Test Performance Report, the Issuer, the Sellers, any Additional Seller and the Guarantor that the Amortisation Test is not met, then all Series of Covered Bonds shall become Pass Through Series.

However, any amount representing the Guaranteed Amounts (as defined below) due and remaining unpaid on the Extension Determination Date or the Maturity Date (as the case may be) may be paid by the Guarantor on any Guarantor Payment Date thereafter, up to (and including) the relevant Extended Maturity Date in accordance with the applicable Priority of Payments. Interest will continue to accrue on any unpaid amount during such extended period and be payable on each Guarantor Payment Date up to the Extended Maturity Date in accordance with Condition 9 (*Redemption and Purchase*).

- *Servicing*: Banca Monte dei Paschi di Siena S.p.A. (in its capacity as Principal Servicer) has entered into the Master Servicing Agreement with the Guarantor, pursuant to which (i) the Principal Servicer has agreed to provide administrative services in respect of the Mortgage Loans and to act as the *soggetto incaricato della riscossione dei crediti ceduti e dei servizi di cassa e di pagamento* pursuant to article 2, sub-paragraph 3, of Law 130, (ii) the parties thereto agreed that, should any Additional Seller(s) enter into the Programme, such Additional Seller will be appointed as Additional Servicer for the administration, management, collection and recovery activities relating to the Assets from time to time assigned by it to the Guarantor; and (iii) the Guarantor has appointed a Back-up Servicer Facilitator who used its best effort to identify an entity suitable to act as Back-Up Servicer upon the rating of the Principal Servicer's long term unguaranteed, unsubordinated and unsecured obligation fell below Baa3 by Moody's. For further details, see sections "*Issuer, Principal Seller, Principal Servicer, Italian Account Bank, Pre-Issuer Default Test Calculation Agent and Principal Subordinated Lender" and "Credit and Collection Policy*" below.

- *Asset Monitor Engagement Letter*: Pursuant to an engagement letter entered into on 18 June 2010, the Issuer has appointed the Asset Monitor in order to perform, subject to receipt of the relevant information from the Issuer, specific monitoring activities concerning, *inter alia*, the control of (i) the fulfilment of the eligibility criteria set out under Decree No. 310 with respect to the Eligible Assets and Top-Up Assets included in the Cover Pool; (ii) the calculation performed by the Issuer in respect of the Mandatory Tests; (iii) the compliance with the limits to the transfer of the Eligible Assets set out under Decree No. 310; and (iv) the effectiveness and adequacy of the risk protection provided by any Swap Agreement entered into in the context of the Programme.

- *Asset Monitor Agreement*: Pursuant to the Asset Monitor Agreement, (i) the Issuer has appointed the Asset Monitor to perform, prior to the delivery of a Guarantee Enforcement Notice, certain verification activities with respect to the Mandatory Tests and the Asset Coverage Test and (ii) the Guarantor has appointed the Asset Monitor to perform, following the delivery of a Guarantee Enforcement Notice, certain verification activities with respect to the Amortisation Test and carry out certain monitoring and reporting services with respect to the Cover Pool in accordance with the terms provided in the Asset Monitor Agreement.

- *Further Information*: For a more detailed description of the transactions summarised above relating to the Covered Bonds, see, amongst other relevant sections of this Prospectus, "*Overview of the Programme*", "*Conditions of the Covered Bonds*", "*Description of the Programme Documents*", "*Credit Structure*", and "*Cashflows*", below.

GENERAL DESCRIPTION OF THE PROGRAMME

This section constitutes a general description of the Programme for the purposes of article 22(5) of Commission Regulation (EC) No. 809/2004. The following overview does not purport to be complete and is taken from, and is qualified in its entirety by, the remainder of this Prospectus and, in relation to the terms and conditions of any particular Series or Tranche of Covered Bonds, the applicable Final Terms. Words and expressions defined elsewhere in this Prospectus shall have the same meaning in this overview.

PARTIES	
Issuer	**Banca Monte dei Paschi di Siena S.p.A.** a bank operating in Italy as a joint stock company (*società per azioni*), having its registered office at Piazza Salimbeni, 3, 53100 Siena, Italy, fiscal code and enrolment with the companies register of Siena number 00884060526 and enrolled under number 5274 in the register of banks held by the Bank of Italy pursuant to article 13 of the Consolidated Banking Act ("**BMPS**" or the "**Issuer**"). For a more detailed description of the Issuer, see section "*Issuer, Principal Seller, Principal Servicer, Italian Account Bank, Pre-Issuer Default Test Calculation Agent and Principal Subordinated Lender*".
Guarantor	**MPS Covered Bond S.r.l.**, a special purpose entity incorporated as limited liability company (*società a responsabilità limitata*) under the laws of Italy pursuant to article 7-*bis* of Law 130, having its registered office at Via V. Alfieri 1, 31015, Conegliano (TV), Italy, fiscal code and enrolment with the companies register of Treviso No. 04323680266, enrolled under number 41746 in the general register held by the Bank of Italy pursuant to article 106 of the Consolidated Banking Act and part of the Montepaschi Group and subject to guidance and coordination of Banca Monte dei Paschi di Siena S.p.A, having as its sole purpose the ownership of the Cover Pool and the granting to holders of the Covered bonds of the Guarantee (the "**Guarantor**"). For a more detailed description of the Guarantor, see section "*The Guarantor*".
Principal Seller	BMPS, pursuant to the terms of the Master Assets Purchase Agreement. For a more detailed description of BMPS, see section "*Issuer, Principal Seller, Principal Servicer, Italian Account Bank, Pre-Issuer Default Test Calculation Agent and Principal Subordinated Lender*".
Additional Seller(s)	Any other bank which is a member of the Montepaschi Group and wishes to sell Assets to the Guarantor within

the scope of the Programme, subject to satisfaction of certain conditions and which, for such purpose, shall enter into, *inter alia*, the Master Assets Purchase Agreement with the Guarantor and any other Programme Document.

On 27 May 2011, Banca Antonveneta S.p.A. ("**BAV**") acceded to the Master Assets Purchase Agreement and to the Programme in the capacity as Additional Seller. Following the merger by way of incorporation of BAV in BMPS with effect as of 28 April 2013 (the "**Merger**"), BMPS assumed all rights and obligations of BAV in the capacity as Additional Seller under the Programme and any reference to BAV in the Programme Documents shall be deemed to be referred to BMPS, which takes over any and all activities and roles previously carried out by BAV.

Principal Servicer

Pursuant to the terms of the Master Servicing Agreement, BMPS will act as Principal Servicer.

For a more detailed description of the Principal Servicer, see section "*Issuer, Principal Seller, Principal Servicer, Italian Account Bank, Pre-Issuer Default Test Calculation Agent and Principal Subordinated Lender*".

Additional Servicer(s)

Any Additional Seller that, subject to satisfaction of certain conditions, wishes to act as Additional Servicer for the administration, management and collection activities relating to the Eligible Assets from time to time assigned by it to the Guarantor and, for such purpose, has acceded to the Master Servicing Agreement.

On 27 May 2011, BAV acceded to the Master Servicing Agreement and to the Programme in the capacity as Additional Servicer. Following the Merger, BMPS assumed all rights and obligations of BAV in the capacity as Additional Servicer under the Programme and any reference to BAV in the Programme Documents shall be deemed to be referred to BMPS, which takes over any and all activities and roles previously carried out by BAV.

Back-Up Servicer Facilitator

Securitisation Services S.p.A., a company incorporated under the laws of the Republic of Italy as *società per azioni*, having its registered office at Via Vittorio Alfieri 1, 31015 Conegliano (TV), Italy, fiscal code and enrolment with the companies register of Treviso number 03546510268, enrolled under number 31816 in the *elenco generale* held by the Bank of Italy pursuant to article 106 of the Consolidated Banking Act, subject to direction and coordination activities (*soggetta all'attività di direzione e coordinamento*) of Banca Finanziaria Internazionale

S.p.A., further to its accession to the Master Servicing Agreement and to the Programme on 3 April 2012.

Back-up Servicer	Securitisation Services S.p.A. or any eligible counterparty appointed upon downgrading of the Servicer below "Baa3" by Moody's, "BBB-" Fitch and BBB(low) by DBRS, pursuant to the Servicing Agreement.
Principal Subordinated Lender	BMPS, pursuant to the Subordinated Loan Agreement. For a more detailed description of the Principal Subordinated Lender, see section "*Issuer, Principal Seller, Principal Servicer, Italian Account Bank, Pre-Issuer Default Test Calculation Agent and Principal Subordinated Lender*".
Additional Subordinated Lender(s)	Each Additional Seller will act as Subordinated Lender in respect of the Assets transferred by itself to the Guarantor. On 27 May 2011, BAV became a Subordinated Lender following the execution of a Subordinated Loan Agreement with the Guarantor. Following the Merger, BMPS assumed all rights and obligations of BAV in the capacity as Additional Subordinated Lender under the Programme and any reference to BAV in the Programme Documents shall be deemed to be referred to BMPS, which takes over any and all activities and roles previously carried out by BAV.
Cash Manager	Pursuant to the Cash Allocation, Management and Payments Agreement, Banca Monte dei Paschi di Siena S.p.A..
Principal Paying Agent	The Bank of New York Mellon (Luxembourg) S.A., Italian Branch, a bank incorporated under the laws of Grand Duchy of Luxembourg, having its registered office at Vertigo Building - Polaris – 2-4 rue Eugène Ruppert - L-2453, Luxembourg, Grand Duchy of Luxembourg, acting through its Milan branch with offices at Diamantino Building – 5th Floor - via Mike Bongiorno 13, 20124 Milan, Italy, fiscal code and enrolment with the companies register of Milan number 05694250969 and registered with the register held by the Bank of Italy pursuant to article 13 of the Consolidated Banking Act as a "*filiale di banca estera*" under number 5662 and with ABI code 3351.4.
Guarantor Calculation Agent	Securitisation Services S.p.A.
Test Calculation Agent	Prior to an Issuer Event of Default, Banca Monte dei Paschi di Siena S.p.A., in its capacity as Pre-Issuer Default

	Test Calculation Agent and, after an Issuer Event of Default, the Guarantor Calculation Agent, which will act in its capacity as Post-Issuer Default Test Calculation Agent.
Pre-Issuer Default Test Calculation Agent	Banca Monte dei Paschi di Siena S.p.A.
Post-Issuer Default Test Calculation Agent	Securitisation Services S.p.A.
Italian Account Bank	Banca Monte dei Paschi di Siena S.p.A. subject to it being an Eligible Institution. As at the date of this Prospectus, the Italian Back-Up Account Bank has succeeded to Banca Monte dei Paschi di Siena S.p.A., and is acting in the capacity of Italian Account Bank pursuant to the provisions of the Cash Allocation Management and Payments Agreement.
Payments Account Bank	The Bank of New York Mellon (Luxembourg) S.A., Italian Branch, subject to it being an Eligible Institution.
Italian Back-Up Account Bank	The Bank of New York Mellon (Luxembourg) S.A., Italian Branch, subject to it being an Eligible Institution.
English Back-Up Account Bank	The Bank of New York Mellon S.A./N.V., London Branch, a public limited liability credit institution incorporated under the laws of Belgium with company number 0806.743.159, having its registered office at 46 Rue Montoyerstraat, B-1000 Brussels, Belgium, acting through its London branch with offices at 160 Queen Victoria Street, London EC4V 4LA, United Kingdom, subject to it being an Eligible Institution.
English Account Bank	Banca Monte dei Paschi di Siena S.p.A., subject to it being an Eligible Institution. As at the date of this Prospectus, the English Back-Up Account Bank has succeeded to Banca Monte dei Paschi di Siena S.p.A. and is acting in the capacity of English Account Bank pursuant to the provisions of the English Account Bank Agreement.
Asset Monitor	Deloitte & Touche S.p.A. a company incorporated under the laws of Italy, enrolled with the Companies' Register of Milan under number 03049560166 and with the special register of accounting firms held by the CONSOB pursuant to the Consolidated Finance Act, having its registered office at via Tortona 25, 20144 Milan, Italy.

Asset Swap Provider(s)	No Asset Swap Provider has been appointed as of the date of this Prospectus.
Covered Bond Swap Providers	One or more suitably rated entities as may be appointed for each Series or Tranche of Covered Bonds.
Guarantor Corporate Servicer	Securitisation Services S.p.A.
Guarantor Quotaholders	Banca Monte dei Paschi di Siena S.p.A. and SVM Securitisation Vehicles Management S.r.l. a company incorporated under the laws of Italy as *società per azioni con socio unico*, having its registered office at Via Vittorio Alfieri 1, 31015, Conegliano (TV), Italy, fiscal code and enrolment with the companies register of Treviso No. 03546510268 and subject to guidance and coordination of Finanziaria Internazionale Holding S.p.A..
Representative of the Bondholders	BNY Mellon Corporate Trustee Services Limited, a limited liability company incorporated under the laws of England and Wales, having its registered office at One Canada Square, London E14 5AL, United Kingdom.
Luxembourg Listing and Paying Agent	The Bank of New York Mellon (Luxembourg) S.A., a bank incorporated under the laws of Grand Duchy of Luxembourg, having its registered office at Vertigo Building - Polaris – 2-4 rue Eugène Ruppert - L-2453, Luxembourg.
Joint-Arrangers	BMPS Morgan Stanley & Co. International plc, a public limited company incorporated under the laws of England, acting through its branch at 25 Cabot Square, Canary Wharf, London E14 4QA, United Kingdom; and NatWest Markets Plc, a public limited company incorporated under the laws of Scotland, acting through its office at 250 Bishopsgate, London EC2M 4AA, United Kingdom.
Dealer(s)	Morgan Stanley & Co. International plc, a public limited company incorporated under the laws of England, acting through its branch at 25 Cabot Square, Canary Wharf, London E14 4QA, United Kingdom; MPS Capital Services Banca per le Imprese S.p.A., a joint stock company (*società per azioni*) incorporated under the laws of the Republic of Italy, having its registered office at Via Pancaldo, 4, 50127 Firenze, Italy, fiscal code and

enrolment with the companies register of Firenze number 00816350482;

NatWest Markets Plc, a public limited company incorporated under the laws of Scotland, acting through its office at 250 Bishopsgate, London EC2M 4AA, United Kingdom;

and any other Dealer(s) appointed in accordance with the Programme Agreement.

THE PROGRAMME

Programme description

Under the terms of the Programme, the Issuer has issued and will issue Covered Bonds (*Obbligazioni Bancarie Garantite*) to Bondholders on each Issue Date. The Covered Bonds will be direct, unsubordinated, unsecured and unconditional obligations of the Issuer guaranteed by the Guarantor under the Guarantee.

Programme Limit

The aggregate nominal amount of the Covered Bonds at any time outstanding will not exceed Euro 20,000,000,000 (or its equivalent in other currencies to be calculated as described in the Programme Agreement subject to any increase thereof). The Issuer may however increase the aggregate nominal amount of the Programme in accordance with the Programme Documents.

THE COVERED BONDS

Form of Covered Bonds

Unless otherwise specified in the relevant Terms and Conditions and Final Terms, the Covered Bonds will be issued in bearer and dematerialised form and held on behalf of their ultimate owners by Monte Titoli for the account of Monte Titoli Account Holders and title thereto will be evidenced by book entries. Monte Titoli will act as depository for Euroclear and Clearstream. No physical document of title will be issued in respect of any such bearer and dematerialised Covered Bonds.

Denomination of Covered Bonds

The Covered Bonds will be issued in such denominations as may be specified in the relevant Final Terms, subject to compliance with all applicable legal and/or regulatory and/or central bank requirements and save that the minimum denomination of each Covered Bond 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 where the relevant Series or Tranche is denominated in a currency

other than euro, the equivalent amount in such other currency).

Status of the Covered Bonds	The Covered Bonds will constitute direct, unconditional, unsecured and unsubordinated obligations of the Issuer and will rank *pari passu* without preference among themselves and (save for any applicable statutory provisions) at least equally with all other present and future unsecured and unsubordinated obligations of the Issuer from time to time outstanding.
Specified Currency	Subject to any applicable legal or regulatory restrictions, each Series or Tranche of Covered Bonds will be issued in such currency or currencies as may be agreed from time to time by the Issuer, the relevant Dealer(s), the Principal Paying Agent and the Representative of the Bondholders, subject to prior notice to the Rating Agencies (as set out in the applicable Final Terms) subject to compliance with all applicable legal, regulatory and/or central bank requirements.
Maturities	The Covered Bonds will have such Maturity Date as may be agreed between the Issuer and the relevant Dealer(s) and indicated in the applicable Final Terms, subject to such minimum or maximum maturities as may be allowed or required from time to time by any relevant central bank (or equivalent body) or any laws or regulations applicable to the Issuer or the relevant Specified Currency.
Redemption	The applicable Final Terms relating to each Series or Tranche of Covered Bonds will indicate either that the Covered Bonds of such Series or Tranche of Covered Bonds cannot be redeemed prior to their stated maturity (other than in specified instalments if applicable, or for taxation reasons or if it becomes unlawful for any Covered Bond to remain outstanding or following a Guarantor Event of Default) or that such Covered Bonds will be redeemable at the option of the Issuer upon giving notice to the Bondholders on a date or dates specified prior to the specified Maturity Date and at a price and on other terms as may be agreed between the Issuer and the Dealer(s) as set out in the applicable Final Terms.
	The applicable Final Terms may provide that the Covered Bonds may be redeemable in two or more instalments of such amounts and on the dates indicated in the Final Terms. For further details, see Condition 9 (*Redemption and purchase*).

Redemption at the option of Bondholders

If the relevant Final Terms of the Covered Bonds provide for a put option to be exercised by the Bondholders prior to an Issuer Event of Default, the Issuer shall, at the option of any Bondholder, redeem such Covered Bonds held by it on the date which is specified in the relevant put option notice at a price (including any interest (if any) accrued to such date) and on other terms as may specified in, and determined in accordance with, the relevant Final Terms.

Extended Maturity Date and Pass Through Series

The applicable Final Terms relating to each Series or Tranche of Covered Bonds issued will indicate, in the interest of the Guarantor, that the Guarantor's obligations under the Guarantee to pay Guaranteed Amounts equal to the Final Redemption Amount of the applicable Series or Tranche of Covered Bonds on their Maturity Date may be deferred until the Extended Maturity Date.

Such deferral will occur automatically: (A) in respect of a Series of Covered Bonds (each such Series, a "**Pass Through Series**") if (i) a Guarantee Enforcement Notice has been served on the Issuer and the Guarantor as a result of the Issuer having failed to pay, in whole or in part, the Guaranteed Amounts on the Maturity Date for such Series of Covered Bonds and, on the relevant Extension Determination Date, the Guarantor has insufficient funds to pay, in accordance with the Guarantee Priority of Payments, the Guaranteed Amounts in respect of such Series of Covered Bonds, or (ii) a Guarantee Enforcement Notice has been served on the Issuer and the Guarantor following the occurrence of an Issuer Event of Default (other than the Issuer Event of Default referred to in paragraph (i) above) and, on the Maturity Date for such Series of Covered Bonds, the Guarantor has insufficient funds to pay, in accordance with the Guarantee Priority of Payments, the Guaranteed Amounts in respect of such Series of Covered Bonds; and (B) in respect of all Series of Covered Bonds, which all become Pass Through Series, if, on any Test Calculation Date following the service of a Guarantee Enforcement Notice (and, in case of a Guarantee Enforcement Notice delivered as a result of an Article 74 Event, prior to the service of an Article 74 Event Cure Notice), the Calculation Agent notifies, through the Test Performance Report, the Issuer, the Sellers, any Additional Seller and the Guarantor that the Amortisation Test is not met.

Payment of all unpaid amounts shall be deferred automatically until the applicable Extended Maturity Date, **provided that** any amount representing the Final Redemption Amount due and remaining unpaid on the

Extension Determination Date or the Maturity Date (as the case may be) may be paid, in accordance with the Guarantee Priority of Payments, by the Guarantor on any Guarantor Payment Date thereafter, up to (and including) the relevant Extended Maturity Date for such Pass Through Series.

The Guarantor will be obliged to (A) apply on each Guarantor Payment Date any Guarantor Available Funds towards redemption in full of all Pass Through Series in accordance with the Guarantee Priority of Payments; and (B) prior to a breach of the Amortisation Test, use its best efforts to sell, in accordance with the provisions of the Cover Pool Management Agreement, Selected Assets, on a semi-annual basis, for an amount as close as possible to the amount necessary (i) to redeem in full (a) the Pass Through Series and/or (b) only on the Earliest Maturing Sale Date, the Earliest Maturing Covered Bonds and (ii) to pay any interest amount due in respect of the Covered Bonds, net of any amounts standing to the credit of the Programme Accounts, **provided that**, prior to and following the sale of such Selected Assets, the Amortisation Test is complied with.

If, on any Test Calculation Date following the service of a Guarantee Enforcement Notice (and, in case of a Guarantee Enforcement Notice delivered as a result of an Article 74 Event, prior to the service of an Article 74 Event Cure Notice), the Calculation Agent notifies, through the Test Performance Report, the Issuer, the Sellers, any Additional Seller and the Guarantor that the Amortisation Test is not met, the Guarantor shall use its best effort (but shall not be obliged) to sell all Eligible Assets and Top-Up Assets included in the Cover Pool, on a semi-annual basis starting from the date falling 30 calendar days after the date of the relevant Test Performance Report, **provided that** the proceeds of the sale (net of any costs connected thereto), together with any amount standing to the credit of the Accounts, are sufficient to redeem in full the Pass Through Series. For further details, see section headed "*Disposal of the Assets included in the Cover Pool following the delivery of a Guarantee Enforcement Notice and the breach of the Amortisation Test*".

For the avoidance of doubt, failure by the Guarantor to sell Selected Assets (or, following the breach of the Amortisation Test, all Eligible Assets and Top-Up Assets included in the Cover Pool) in accordance with the Cover

Pool Management Agreement shall not constitute a Guarantor Event of Default.

Interest will continue to accrue and be payable on the unpaid amount (to the extent permitted by Italian law) on each Guarantor Payment Date up to the Extended Maturity Date, subject to and in accordance with the provisions of the relevant Final Terms.

For further details, see Condition 9 (*Redemption and Purchase*).

Issue Price

Covered Bonds may be issued at par or at a premium or discount to par on a fully-paid or partly-paid basis (as set out in the relevant Final Terms).

Interest

Covered Bonds may be interest bearing or non interest bearing. Interest (if any) may accrue at a fixed rate or a floating rate and the method of calculating interest may vary between the Issue Date and the Maturity Date of the relevant Series or Tranche. Covered Bonds may also have a maximum rate of interest, a minimum rate of interest or both (as indicated in the applicable Final Terms). Interest on Covered Bonds in respect of each Interest Period, as agreed prior to issue by the Issuer and the relevant Dealer(s), will be payable on such Interest Payment Dates, and will be calculated on the basis of such Day Count Fraction, in each case as may be agreed between the Issuer and the relevant Dealer(s).

Any series of Covered Bonds becoming a Pass Through Series will accrue the interest rate provided under the relevant Final Terms for the period from the Maturity Date to the Extended Maturity Date.

Fixed Rate Covered Bonds

Fixed Rate Covered Bonds will bear interest at a fixed rate, which will be payable on the date or dates as may be agreed between the Issuer and the relevant Dealer(s) 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(s) (as set out in the applicable Final Terms).

Floating Rate Covered Bonds

Floating Rate Covered Bonds will bear interest at a rate determined:

(a) 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 ISDA Definitions; or

(b) on the basis of a reference rate appearing on the agreed screen page of a commercial quotation service; or

in each case, as set out in the applicable Final Terms.

The Margin (if any) relating to such floating rate will be agreed between the Issuer and the relevant Dealer(s) for each issue of Floating Rate Covered Bonds, as set out in the applicable Final Terms.

Zero Coupon Covered Bonds Zero Coupon Covered Bonds, bearing no interest, may be offered and sold at a discount to their nominal amount, as specified in the applicable Final Terms.

Amortising Covered Bonds Covered Bonds may be issued with a predefined, prescheduled amortisation schedule where, in addition to interest, the Issuer will pay, on each relevant Interest Payment Date, a portion of principal up to the relevant Maturity Date (as set out in the applicable Final Terms) in instalments.

Taxation All payments in relation to Covered Bonds will be made without tax deduction or withholding except where required by law. If any tax deduction is made, the Issuer shall be required to pay additional amounts in respect of the amounts so deducted or withheld, subject to a number of exceptions including deductions on account of Italian substitute tax pursuant to Decree No. 239.

Under the Guarantee, the Guarantor will not be liable to pay any such additional amounts to any Bondholders in respect of the amount of such withholding or deduction.

For further details, see Condition 11 (*Taxation*).

Cross default provisions Each Series or Tranche of Covered Bonds will cross accelerate as against each other Series or Tranches, but will not otherwise contain a cross default provision. Accordingly, neither an event of default under any other indebtedness of the Issuer (including other debt securities of the Issuer) nor any acceleration of such indebtedness will of itself give rise to an Issuer Event of Default (except where such events constitute an Insolvency Event in respect of the Issuer).

In addition, an Issuer Event of Default will not automatically give rise to a Guarantor Event of Default, provided however that, where a Guarantor Event of Default occurs and the Representative of the Bondholders serves a Guarantor Default Notice upon the Guarantor,

such Guarantor Default Notice will accelerate each Series or Tranche of outstanding Covered Bonds issued under the Programme.

For further details, see Condition 12 (*Segregation Event and Events of Default*).

Notice to the Rating Agencies

The issue of any Series or Tranche of Covered Bond (including, for the avoidance of doubt, Fixed Rate Covered Bonds, Floating Rate Covered Bonds, Zero Coupon Covered Bonds and Amortisation Covered Bonds) in each case as specified in the applicable Final Terms shall be subject to prior notice to the Rating Agencies.

Listing and admission to trading

Application has been made for Covered Bonds issued under the Programme during the period of 12 months from the date of this Prospectus to be admitted to the official list and to trading on the regulated market of the Luxembourg Stock Exchange. The Programme also permits Covered Bonds to be issued on the basis that (i) they will be admitted to listing, trading and/or quotation by such other or further competent authorities, stock exchanges and/or quotation systems as may be agreed with the Issuer or (ii) they will not be admitted to listing, trading and/or quotation by any competent authority, stock exchange and/or quotation system.

Issue Ratings

Each Series or Tranche of Covered Bonds may or may not be assigned a rating by one or more Rating Agencies. Each Series or Tranche of Covered Bonds, if rated, is expected to be assigned the following ratings on the relevant Issue Date unless otherwise stated in the applicable Final Terms:

Moody's	Fitch	DBRS
AA1	A+	AA (low)

The issuance of any Series or Tranche of Covered Bonds (including any unrated Covered Bonds) shall be subject to prior notice to the Rating Agencies.

Governing Law

The Covered Bonds and the related Programme Documents will be governed by Italian law, except for the Swap Agreements, the Deed of Charge and the English Account Bank Agreement which will be governed by English law.

SEGREGATION EVENTS, ISSUER EVENTS OF DEFAULT AND GUARANTOR EVENTS OF DEFAULT

Segregation Events

A Segregation Event will occur upon the notification by the relevant Test Calculation Agent that:

(i) a breach of one of the Mandatory Tests on the relevant Quarterly Test Calculation Date; and/or

(ii) prior to the delivery of a Guarantee Enforcement Notice, a breach of the Asset Coverage Test on the relevant Test Calculation Date,

has not been remedied within the applicable Test Grace Period.

Upon the occurrence of a Segregation Event, the Representative of the Bondholders will serve notice (the "**Breach of Tests Notice**") on the Issuer and the Guarantor that a Segregation Event has occurred.

In such case:

(a) no further Series or Tranche of Covered Bonds may be issued by the Issuer;

(b) there shall be no further payments to the Subordinated Lender under any relevant Term Loan, other than where necessary for the purpose of complying with the 15% Limit in accordance with the provisions of Decree 310 and the Bank of Italy Regulations as better specified in the Cover Pool Management Agreement (and to the extent that no purchase of Eligible Assets is possible to this effect in accordance with the provisions of the Master Assets Purchase Agreement and the Cover Pool Management Agreement and/or in compliance with the limits set out in the Bank of Italy Regulations);

(c) the purchase price for any Eligible Assets or Top-Up Assets to be acquired by the Guarantor shall be paid using the proceeds of a Term Loan or, with respect to Eligible Assets only, to the extent necessary to comply with the 15% Limit in accordance with the provisions of Decree 310 and the Bank of Italy Regulations as better specified in the Cover Pool Management Agreement, the Guarantor Available Funds; and

(d) payments due under the Covered Bonds will continue to be made by the Issuer until a Guarantee Enforcement Notice has been delivered.

If the relevant Mandatory Tests and Asset Coverage Test is/are met within the Test Remedy Period, the Representative of the Bondholders will promptly deliver to the Issuer, the Guarantor and the Asset Monitor a notice informing such parties that the Breach of Tests Notice then outstanding has been revoked (the "**Breach of Tests Cure Notice**").

For further details, see section "*Description of the Programme Documents - Cover Pool Management Agreement*".

Issuer Event of Default

An Issuer Event of Default will occur if:

(i) *Non-payment (also as a result of claw-back)*: the Issuer fails to pay any amount of interest and/or principal due and payable on any Series or Tranche of Covered Bonds and such breach is not remedied within 15 calendar days, in case of amounts of interest, or 7 calendar days (other than in case of non-payment as at the Maturity Date), in case of amounts of principal, as the case may be;

(ii) *Breach of obligation (other than non-payment)*: a material breach by the Issuer of any obligation under the Programme Documents occurs and such breach is not remedied within 30 calendar days after the Representative of the Bondholders has given written notice thereof to the Issuer; or

(iii) *Insolvency*: an Insolvency Event occurs in respect of the Issuer;

(iv) *Article 74 Event*: a resolution pursuant to Article 74 of the Consolidated Banking Act is issued in respect of the Issuer;

(v) *Cessation of business*: a Cessation of Business occurs in respect of the Issuer; or

(vi) *Breach of Tests*: following the delivery of a Breach of Tests Notice, one of the relevant Mandatory Tests and Asset Coverage Test is/are not met on, or prior to, the Test Calculation Date falling at the end of the Test Remedy Period

unless a resolution of the Bondholders is passed resolving to extend the Test Remedy Period.

If any of the events set out in points (i), (iii) - to the extent that it is an Insolvency Event consisting in a procedure of *liquidazione coatta amministrativa* of the Issuer, - (iv) or (vi) above occurs and is continuing, then the Representative of the Bondholders shall serve to the Issuer and the Guarantor a notice to demand payments under the Guarantee (a "**Guarantee Enforcement Notice**"), specifying in case of the Issuer Event of Default referred to under item (iv) above, that the Issuer Event of Default may be temporary and the relevant Guarantee Enforcement Notice may be revoked accordingly.

Upon the service of a Guarantee Enforcement Notice:

(a) no further Series or Tranche of Covered Bonds may be issued by the Issuer;

(b) there shall be no further payments to the Subordinated Lender under any relevant Term Loan;

(c) the purchase price for any Eligible Assets or Top-Up Assets to be acquired by the Guarantor shall be paid using the proceeds of a Term Loan;

(d) *Guarantee*: (i) interest and principal falling due on the Covered Bonds will be payable by the Guarantor at the time and in the manner provided under the Conditions and the Final Terms of the relevant Series or Tranche of Covered Bonds, subject to and in accordance with the terms of the Guarantee and the Guarantee Priority of Payments; then (ii) the Guarantor (or the Representative of the Bondholders pursuant to the Intercreditor Agreement) shall be entitled to request from the Issuer an amount up to the Guaranteed Amounts and any sum so received or recovered from the Issuer will be used to make payments in accordance with the Guarantee;

(e) *Pass Through Series*: to the extent that the Guarantor does not have sufficient funds to pay the Final Redemption Amount on a Series of Covered Bonds (also taking into account amounts referred under letter (ii) of paragraph (b) above (if any)), such Series shall become a Pass Through Series in accordance with Condition 8(b);

(f) *Disposal of Assets*: the Guarantor shall use its best effort to sell the Eligible Assets and/or Top-Up Assets included in the Cover Pool in accordance with the provisions of the Cover Pool Management Agreement,

provided that, in case of the Issuer Event of Default determined by a resolution issued in respect of the Issuer pursuant to article 74 of the Consolidated Banking Act (referred to under item (iv) (Article 74 Event) above) (the "**Article 74 Event**"), the effects listed in items (a) (*Application of the Segregation Event provisions*), (b) (*Guarantee*) and (d) (*Disposal of Assets*) above will only apply for as long as the suspension of payments pursuant to Article 74 of the Consolidated Banking Act will be in force and effect (the "**Suspension Period**"). Accordingly (A) the Guarantor, in accordance with Decree No. 310, shall be responsible for the payments of the amounts due and payable under the Covered Bonds during the Suspension Period and (B) at the end of the Suspension Period, the Issuer shall be again responsible for meeting the payment obligations under the Covered Bonds.

For the avoidance of doubt (i) in case of delivery of a Guarantee Enforcement Notice further to a non- payment of interest on a Series of Covered Bonds the relevant Series becomes a Pass-Though Series on the relevant Maturity Date if and only to the extent that, on the Extension Determination Date, the Guarantor does not have sufficient funds to redeem the Final Redemption Amount of such Series and (ii) in case of delivery of a Guarantee Enforcement Notice further to an Insolvency Event of the Issuer - consisting in a procedure of *liquidazione coatta amministrativa* - or further to an Article 74 Event, if the Guarantor does not have sufficient funds pay the Final Redemption Amount due on a Series of Covered Bond on the relevant Maturity Date, such Series becomes a Pass-Though Series on such Maturity Date.

If any of the events set out in points (ii), (iii) other than in case of Insolvency Event consisting in a procedure of *liquidazione coatta amministrativa* of the Issuer, (v) or (vi) above occurs and is continuing, then the Representative of the Bondholders shall serve a notice to the Issuer, the Guarantor, the Principal Seller and any Additional Seller (if any), the Principal Servicer and any Additional Servicer (if any), the Asset Monitor, the Rating Agencies, the Guarantor Calculation Agent, the Swap Counterparties, the Post-Issuer Default Test

Calculation Agent and the Rating Agencies (an "**Issuer Default Notice**").

Upon the service of an Issuer Default Notice the provisions governing the Segregation Event from item (a) to (d) shall apply.

Please also see Condition 12.2 (*Issuer Event of Default*).

Guarantor Event of Default

Following the occurrence of an Issuer Event of Default and delivery of the relevant Guarantee Enforcement Notice (to the extent not revoked), a Guarantor Event of Default will occur if:

(i) *Non-payment*: the Guarantor fails to pay any interest and/or principal due and payable under the Guarantee and such breach is not remedied within the next following 7 Business Days; or

(ii) *Insolvency*: an Insolvency Event occurs in respect of the Guarantor; or

(iii) *Breach of other obligation*: a material breach of any obligation under the Programme Documents by the Guarantor occurs (other than payment obligations referred to in item (i) (*Non-payment*) above) which is not remedied within 30 calendar days after the Representative of the Bondholders has given written notice thereof to the Guarantor.

If any of the events set out in points from (i) to (iii) above (each, a "**Guarantor Event of Default**") occurs and is continuing then the Representative of the Bondholders shall serve a Guarantor Default Notice to the Issuer, the Guarantor, the Principal Seller and any Additional Seller (if any), the Principal Servicer and any Additional Servicer (if any), the Asset Monitor, the Guarantor Calculation Agent, the Italian Account Bank, the English Account Bank, the Back-up English Account Bank, the Principal Paying Agent and the Guarantor Corporate Servicer and the Rating Agencies, unless the Representative of the Bondholders, having exercised its discretion, resolves otherwise or a resolution of the Bondholders is passed resolving otherwise.

Upon the delivery of a Guarantor Default Notice:

(i) *Acceleration of Covered Bonds*: the Covered Bonds shall become immediately due and payable at their Early Termination Amount together, if appropriate, with any accrued interest and will

rank *pari passu* among themselves in accordance with the Post-enforcement Priority of Payments;

(ii) *Guarantee*: subject to and in accordance with the terms of the Guarantee, the Representative of the Bondholders, on behalf of the Bondholders, shall have a claim against the Guarantor for an amount equal to the Early Termination Amount, together with accrued interest and any other amount due under the Covered Bonds (other than additional amounts payable as gross up) in accordance with the Priority of Payments;

(iii) *Disposal of Assets*: the Guarantor shall immediately sell all Assets included in the Cover Pool in accordance with the provisions of the Cover Pool Management Agreement; and

(iv) *Enforcement*: the Representative of the Bondholders may, at its discretion and without further notice, take such steps and/or institute such proceedings against the Issuer or the Guarantor (as the case may be) as it may think fit to enforce such payments, but it shall not be bound to take any such proceedings or steps unless requested or authorised by a resolution of the Bondholders.

Please also see Condition 12.3 (*Guarantor Event of Default*).

Breach of Mandatory Tests and /or Asset Coverage Test

If on any Test Calculation Date or Quarterly Test Calculation Date, as the case may be, a Test Performance Report specifies that the Cover Pool is not in compliance with the relevant Test, then the Principal Seller and/or any Additional Seller(s) in respect of each relevant New Portfolio transferred to the Guarantor will either (i) sell additional Eligible Assets and/or Top-Up Assets to the Guarantor for an amount sufficient to allow the relevant Test to be met on the next following Test Calculation Date as determined in the immediately following Test Performance Report, in accordance with the Master Assets Purchase Agreement and the Cover Pool Management Agreement, to be financed through the proceeds of Term Loans to be granted by the Principal Seller and/or any Additional Seller(s), (ii) substitute any relevant assets in respect of which the right of repurchase can be exercised under the terms of the Master Assets Purchase Agreement with new Eligible Assets, for an amount sufficient to allow the relevant Test to be met on

the next following Test Calculation Date as determined in the immediately following Test Performance Report or (iii) take any other action deemed appropriate to allow the relevant Tests to be cured on the next Test Calculation Date.

If, within the Test Grace Period the relevant breach of the Tests is not remedied in accordance with the terms of the Cover Pool Management Agreement, the Representative of the Bondholders will deliver a Breach of Test Notice.

If, after the delivery of a Breach of Test Notice, the relevant breach of the Tests is not remedied, within the Test Remedy Period, in accordance with the terms of the Cover Pool Management Agreement, the Representative of the Bondholders will deliver a Guarantee Enforcement Notice.

Breach of the Amortisation Test

If, after the delivery of a Guarantee Enforcement Notice (and, in case of a Guarantee Enforcement Notice delivered as result of an Article 74 Event, prior to the delivery of an Article 74 Event Cure Notice), a breach of the Amortisation Test occurs:

- *Pass Through Series*: any and all Series of Covered Bonds will become immediately Pass Through Series in accordance with Condition 8(b); and
- *Disposal of Assets*: the Guarantor shall use its best effort to sell the Eligible Assets and/or Top-Up Assets included in the Cover Pool in accordance with the provisions of the Cover Pool Management Agreement.

15% Limit

The aggregate amount of Top-Up Assets included in the Cover Pool may not be in excess of 15 per cent. of the aggregate outstanding principal amount of the Cover Pool, other than as otherwise permitted by law or applicable regulation.

THE TESTS

For an overview of the Tests, see paragraphs "*Mandatory Tests*" and "*Asset Coverage Test*", "*Amortisation Test*" of section "*Structure Overview*" below.

For a detailed description of the Tests, see paragraph "*Tests*" of section "*Credit Structure*" below.

THE GUARANTOR AND THE GUARANTEE

Guarantee

Payments of Guaranteed Amounts in respect of the Covered Bonds when Due for Payment will be unconditionally and irrevocably guaranteed by the Guarantor. The obligations of the Guarantor to make payments in respect of such Guaranteed Amounts when Due for Payment are subject to the conditions that an Issuer Event of Default has occurred, and a Guarantee Enforcement Notice has been served on the Issuer and on the Guarantor.

The obligations of the Guarantor will accelerate once a Guarantor Default Notice has been delivered to the Guarantor. The obligations of the Guarantor under the Guarantee constitute direct, unconditional and unsubordinated obligations collateralised by the Cover Pool and recourse against the Guarantor is limited to such assets.

For further details, see "*Description of the Programme Documents - Guarantee*".

Cover Pool

The Guarantee will be collateralised by the Cover Pool constituted by (i) the Portfolio comprised of (a) Mortgage Loans and the related collateral and (b) Asset Backed Securities, assigned to the Guarantor by the Principal Seller and/or the Additional Seller(s) in accordance with the terms of the Master Assets Purchase Agreement (ii) any proceeds arising from the Swap Agreements and (iii) any other Eligible Assets and Top-Up Assets held by the Guarantor with respect to the Covered Bonds and the proceeds thereof which will, *inter alia*, comprise the funds generated by the Portfolio, the other Eligible Assets and the Top-Up Assets including, without limitation, funds generated by the sale of assets from the Cover Pool and funds paid in the context of a liquidation of the Issuer.

The Asset Backed Securities to be comprised in the Cover Pool will comply with the relevant eligibility criteria set out under the ECB Guidelines.

For further details, see "*Description of the Cover Pool*".

Limited recourse

The obligations of the Guarantor to the Bondholders and, in general, to the Seller and/or any Additional Seller(s) and other creditors will be limited recourse obligations of the Guarantor. The Bondholders, the Seller and /or any Additional Seller(s) and such other creditors will have a claim against the Guarantor only to the extent of the

Guarantor Available Funds subject to the relevant Priorities of Payments, in each case subject to, and as provided for in, the Guarantee and the other Programme Documents.

Term Loans

Under the terms of the Subordinated Loan Agreements, the Principal Seller and the Additional Seller(s), in their capacity, respectively, as Principal Subordinated Lender and Additional Subordinated Lender, will from time to time grant to the Guarantor Term Loans in the form of (i) a Programme Term Loan, or (ii) a Floating Interest Term Loan, or (iii) a Fixed Interest Term Loan.

The Programme Term Loan will be granted for the purpose of, *inter alia* (i) funding the purchase price of the Eligible Assets and Top Up Assets included in the Initial Portfolio and in any New Portfolios to be transferred to the Guarantor pursuant to the Master Assets Purchase Agreement, and/or (ii) remedying any breach of the Tests and complying with the 15% Limit with respect to the Top-Up Assets, and/or (iii) repayment of any other Floating Interest Term Loan or Fixed Interest Term Loan as necessary.

Each Floating Interest Term Loan or Fixed Interest Term Loan will be granted for the purpose of, *inter alia* (i) funding the purchase price of the Eligible Assets and Top-Up Assets included in any New Portfolios to be transferred to the Guarantor in connection with the issue of a Corresponding Series or Tranche of Covered Bonds to be issued under the Programme, and/or (ii) reimbursing (also in part) any Term Loan for an amount equal to the Corresponding Series or Tranche of Covered Bonds.

Amounts owed to each Subordinated Lender by the Guarantor under the Subordinated Loan Agreements will be subordinated to amounts owed by the Guarantor under the Guarantee.

For further details, see "*Description of the Programme Documents - Subordinated Loan Agreements*".

Excess Assets and support for further issues

Any Eligible Assets and Top-Up Assets forming part of the Cover Pool which are in excess of the value of the Eligible Assets and Top-Up Assets required to satisfy the Tests may be (i) purchased by the Seller in accordance with the provisions of the Cover Pool Management Agreement and the Master Assets Purchase Agreement or (ii) retained in the Cover Pool, also to be applied to support the issue of new Series or Tranche of Covered

Bonds or ensure compliance with the Tests, **provided that** in each case any such disposal or retention shall occur in accordance with any relevant law, regulation or interpretation of any authority (including, for the avoidance of doubts, the Bank of Italy or the Minister of Economy and Finance) which may be enacted with respect to Law 130, the Bank of Italy Regulation and the Decree No. 310 and no disposal under item (i) above may occur if it would cause the Tests to be breached.

For further details, see "*Description of the Programme Documents - The Cover Pool Management Agreement*".

Segregation of Guarantor's rights and collateral

The Covered Bonds benefit from the provisions of article 7-*bis* of Law 130, pursuant to which the Cover Pool is segregated by operation of law from the Guarantor's other assets.

In accordance with article 7-*bis* of Law 130, prior to and following a winding up of the Guarantor and an Issuer Event of Default or Guarantor Event of Default causing the Guarantee to be called, proceeds of the Cover Pool paid to the Guarantor and amounts standing to the credit of the accounts opened in the name of the Guarantor will be exclusively available for the purpose of satisfying the obligations owed to the Bondholders, to the Swap Providers under the Swap Agreements and to any other creditors exclusively in satisfaction of the transaction costs of the Programme.

The Cover Pool may not be seized or attached in any form by creditors of the Guarantor other than the entities referred to above, until full discharge by the Guarantor of its payment obligations under the Guarantee or cancellation thereof.

Cross-collateralisation

All Eligible Assets and Top-Up Assets transferred from the Seller(s) to the Guarantor from time to time or otherwise acquired by the Guarantor and the proceeds thereof, any proceeds arising from the Swap Agreements and any funds generated by the sale of assets included in the Cover Pool form the collateral supporting the Guarantee in respect of all Series or Tranche of Covered Bonds.

Claims under Covered Bonds

The Representative of the Bondholders, for and on behalf of the Bondholders, may submit a claim to the Guarantor and make a demand under the Guarantee in case of an Issuer Event of Default or Guarantor Event of Default.

Disposal of the Assets included in the Cover Pool following the delivery of a Guarantee Enforcement Notice

After the service of a Guarantee Enforcement Notice, the Guarantor (or the Principal Servicer on behalf of the Guarantor) shall use its best effort to sell the Eligible Assets and/or Top-Up Assets in the Cover Pool (any such Eligible Assets and Top-Up Assets, the "Selected Assets") in accordance with the provisions of the Cover Pool Management Agreement.

The Guarantor shall use its best effort to sell the Selected Assets, on a semi-annual basis, at least within (**provided that** the Guarantor may commence before) the date falling (i) 30 calendar days after the service of a Guarantee Enforcement Notice following a non-payment referred under Condition 11.2(a) or (ii) in any other case of Guarantee Enforcement Notice delivered other than for a non payment on a Series of Covered Bonds, six months prior to the Maturity Date of the Earliest Maturing Covered Bonds (the "**Earliest Maturing Sale Date**") <u>and up to</u> the earlier of (a) the date on which a breach of the Amortisation Test occurred, (b) the date on which the Pass Through Series of Covered Bonds have been redeemed in full and (c) the date on which a Guarantor Default Notice is delivered.

The Guarantor shall use its best effort to sell the Selected Assets, in accordance with the provisions of the Cover Pool Management Agreement, in an amount as close as possible to the amount necessary (i) to redeem in full (a) the Pass Through Series and/or (b) only on the Earliest Maturing Sale Date, the Earliest Maturing Covered Bonds and (ii) to pay any interest amount due in respect of the Covered Bonds, <u>net of</u> any amounts standing to the credit of the Programme Accounts, <u>**provided that**</u>, prior to and following the sale of such Selected Assets, the Amortisation Test is complied with.

Any such sale shall be subject to the right of pre-emption in favour of the Issuer (other than in case of *liquidazione coatta amministrativa* of the Issuer), as Principal Seller, or any Additional Seller(s) in respect of such Selected Assets.

The proceeds from any such sale will be credited (net of the cost connected to the sale of such Selected Assets) to the Main Programme Account and applied as set out in the Guarantee Priority of Payments to (i) pay interest on the relevant Series of Covered Bonds and (ii) redeem any relevant Pass Through Series.

The Selected Assets to be sold will be selected from the Cover Pool on a random basis by the Principal Servicer on behalf of the Guarantor.

Disposal of the Assets included in the Cover Pool following the delivery of a Guarantee Enforcement Notice and the breach of the Amortisation Test

Following the delivery of a Guarantee Enforcement Notice (and, in case of a Guarantee Enforcement Notice delivered as result of an Article 74 Event, prior to the delivery of an Article 74 Event Cure Notice), in case a Test Performance Report specifies that a breach of the Amortisation Test occurred, the Guarantor shall use its best effort to sell all Eligible Assets and/or Top-Up Assets included in the Cover Pool, on a semi-annual basis starting from the date falling 30 calendar days after the date of the relevant Test Performance Report.

The Guarantor shall use its best effort to sell the Eligible Assets and/or Top-Up Assets in an amount as close as possible to the amount necessary (i) to redeem in full the Pass Through Series and (ii) to pay any interest amount due in respect of the Covered Bonds net of any amounts standing to the credit of the Programme Accounts.

Disposal of the Assets included in the Cover Pool following the delivery of a Guarantor Default Notice

After the service of a Guarantor Default Notice, the Guarantor shall immediately sell all Eligible Assets and/or Top-Up Assets included in the Cover Pool in accordance with the procedures described in the Cover Pool Management Agreement, subject to the right of pre-emption in favour of the Issuer (other than in case of *liquidazione coatta amministrativa* of the Issuer), as Principal Seller, or the Additional Seller **provided that** the Guarantor will instruct the Portfolio Manager to use all reasonable endeavours to procure that such sale is carried out as quickly as reasonably practicable taking into account the market conditions at that time.

For further details, see Condition 12.3 (*Guarantor Event of Default*).

SALE AND DISTRIBUTION

Distribution

Covered Bonds may be distributed by way of private or public placement and in each case on a syndicated or non syndicated basis, subject to the restrictions set forth in the Programme Agreement.

Purchase of Covered Bonds by the Issuer

The Issuer or any such subsidiary may at any time purchase any Covered Bonds in the open market or otherwise and at any price.

Certain restrictions

Each Series or Tranche of Covered Bonds issued will be denominated in a currency in respect of which particular

laws, guidelines, regulations, restrictions or reporting requirements apply and will only be issued in circumstances which comply with such laws, guidelines, regulations, restrictions or reporting requirements from time to time. There are restrictions on the offer, sale and transfer of Covered Bonds in the United States, the European Economic Area (including the Republic of Italy), the United Kingdom and Japan. Other restrictions may apply in connection with the offering and sale of a particular Series or Tranche of Covered Bonds.

For further details, see section "*Subscription and Sale*" below.

DOCUMENTS INCORPORATED BY REFERENCE

This Prospectus should be read and construed in conjunction with the following documents, which have been previously published, or are published simultaneously with this Prospectus or filed with the CSSF, together, in each case, with the audit reports (if any) thereon:

(a) the press release dated 11 January 2019;

(b) the press release dated 28 December 2018;

(c) the audited consolidated annual financial statements of the Issuer as at and for the years ended 31 December 2016 and 31 December 2017 including the relevant auditors' reports;

(d) the unaudited half-yearly consolidated financial report of the Issuer as at and for the period ended 30 June 2017 and 30 June 2018 including the relevant auditors' review report;

(e) the consolidated unaudited interim financial report of BMPS as at 30 September 2017 and 30 September 2018;

(f) the financial statements of the Guarantor as at and for the years ended 31 December 2016 and 31 December 2017;

(g) the auditors' report for the Guarantor for financial statements as at and for the years ended 31 December 2016 and 31 December 2017.

Such documents shall be incorporated by reference into, and form part of, this Prospectus, save that any statement contained in a document which is incorporated by reference herein shall be modified or superseded for the purpose of this Prospectus to the extent that a statement contained herein modifies or supersedes such earlier statement (whether expressly, by implication or otherwise). Any statement so modified or superseded shall not, except as so modified or superseded, constitute a part of this Prospectus.

Copies of documents incorporated by reference into this Prospectus may be obtained from the registered office of the Issuer or, for the audited consolidated annual financial statements of the Issuer as at and for the years ended 31 December 2016 and 31 December 2017, the auditor's report for the Issuer for the financial year ended 31 December 2016 and 31 December 2017, the unaudited half-yearly consolidated financial report of the Issuer as at and for the period ended 30 June 2017 and 30 June 2018 and the consolidated unaudited interim financial report of the Issuer as at 30 September 2017 and 30 September 2018, on the Issuer's website (http://www.mps.it). This Prospectus and the documents incorporated by reference will also be available on the Luxembourg Stock Exchange's web site (http://www.bourse.lu).

The Issuer declares that only the English language versions, which represent a direct translation from the Italian language documents (including the audit reports), are incorporated by reference in this Prospectus.

Cross-reference List

The following table shows where the information incorporated by reference into this Prospectus, including the information required under Annex IX of Commission Regulation (EC) No. 809/2004, can be found in the above-mentioned financial statements incorporated by reference into this Prospectus.

Annual and Semiannual consolidated financial statements of the Issuer and the Guarantor

Commission Regulation (EC) No. 809/2004, Annex IX, paragraph 11.1.

Audited annual financial statements of the Issuer	2016	2017
Balance Sheet	Pages 99 - 100	Pages 133- 134
Income Statement	Pages 101 – 102	Pages 135 - 136
Cash flow statement	Pages 108- 109	Pages 142 - 143
Notes to Financial Statements	Pages 111 - 465	Pages 147 - 501
Audit report	Pages 469 - 472	Pages 505 - 517

Unaudited consolidated half-yearly financial report of the Issuer	30 June 2017	30 June 2018
Balance Sheet	Pages 21- 22	Pages 19 - 20
Income Statement	Page 23	Page 21 - 22
Statement of comprehensive income	Page 24	Page 22
Statement of changes in equity	Pages 25 - 28	Pages 23 - 26
Cash flow statement	Pages 29 - 30	Pages 27 - 28
Explanatory Notes	Pages 31 - 107	Pages 29 - 144
Auditors' review report	Pages 110 - 112	Pages 145 - 146

30 September 2017 Unaudited consolidated interim financial report of the Issuer	Pages
Consolidated Balance Sheet	Pages 23- 24
Consolidated Income Statement	Page 25
Consolidated Statement of comprehensive income	Page 26
Consolidated Statement of changes in equity	Pages 27 – 30
Consolidated Cash flow statement	Pages 31 – 32
Consolidated Reports on Operations	Pages 3 – 20
Notes to the interim reports of operations	Pages 33 – 119
Independent Auditor's Report	Pages 121 - 123

30 September 2018 Unaudited consolidated interim financial report of the Issuer	Pages
Results in brief	Pages 4 – 6
Executive Summary	Pages 7 - 8
Shareholders	Page 9
Information on the BMPS share	Page 10

Reference context	Page 11
Significant events in the first nine months of 2018	Pages 12 - 14
Significant events after 30 September 2018	Page 14
Strategy	Pages 15 - 17
Explanatory Notes	Pages 18 - 19
Income Statement and balance sheet reclassification principles	Pages 20 - 22
Reclassified income statement	Pages 23 - 30
Reclassified balance sheet	Pages 31 - 43
Disclosure on risks	Pages 44 - 47
Results by operating segment	Pages 48 - 61
Prospects and outlook on operations	Pages 62 - 63
Annex	Pages 64 - 66
Declaration of the financial reporting officer	Page 67

Financial statements of the Guarantor	**2016**	**2017**
Balance Sheet	Page 11	Page 11
Income Statement	Page 11	Page 11
Cash flow statement	Pages 14 - 15	Pages 14 - 15
Statements of changes in the Shareholders' Equity accounts	Page 13	Page 13
Notes to the Financial Statements	Pages 16 - 82	Page 16 - 80
Audit report	Separate document	Separate document

Press Release 28 December 2018		
Entire document		

Press Release 11 January 2019		
Entire document		

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 Prospectus Regulation.

TERMS AND CONDITIONS OF THE COVERED BONDS

*The following is the text of the terms and conditions of the Covered Bonds (the "**Conditions**" and, each of them, a "**Condition**"). In these Conditions, references to the "holder" of Covered Bonds and to the "Bondholders" are to the ultimate owners of the Covered Bonds, bearer and dematerialised and evidenced by book entries with Monte Titoli in accordance with the provisions of (i) article 83-bis of the Financial Laws Consolidation Act and (ii) the joint regulation of CONSOB and the Bank of Italy dated 13 August 2018 and published in the Official Gazette No. 201 of 30 August 2018, as subsequently amended and supplemented from time to time.*

The Bondholders are deemed to have notice of and are bound by, and shall have the benefit of, inter alia, the terms of the Rules of the Organisation of the Bondholders attached to, and forming part of, these Conditions. In addition, the applicable Final Terms in relation to any Series or Tranche of Covered Bonds may specify other terms and conditions which shall, to the extent so specified or to the extent inconsistent with the Conditions, complete the Conditions for the purpose of such Series or Tranche.

1. INTRODUCTION

(a) *Programme*: Banca Monte dei Paschi di Siena S.p.A. (the "**Issuer**") has established a covered bond programme (the "**Programme**") for the issuance of up to €20,000,000,000 in aggregate principal amount of covered bonds (*Obbligazioni Bancarie Garantite*) (the "**Covered Bonds**") guaranteed by MPS Covered Bond S.r.l. (the "**Guarantor**"). Covered Bonds are issued pursuant to article 7-*bis* of Law No. 130 of 30 April 1999 (as amended, the "**Law 130**"), Ministerial Decree No. 310 of the Ministry for the Economy and Finance of 14 December 2006 (the "**Decree No. 310**") and the regulation of the Bank of Italy of 17 May 2007 (the "**Bank of Italy Regulations**").

(b) *Final Terms*: Covered Bonds are issued in series or tranches (each, respectively, a "**Series**" or "**Tranche**"). Each Series or Tranche is the subject of final terms (the "**Final Terms**") which complete these Conditions. The terms and conditions applicable to any particular Series or Tranche of Covered Bonds are these Conditions as completed by the relevant Final Terms.

(c) *Guarantee*: Each Series or Tranche of Covered Bonds is the subject of a guarantee dated 18 June 2010 (the "**Guarantee**") entered into between the Guarantor and the Representative of the Bondholders for the purpose of guaranteeing the payments due from the Issuer in respect of the Covered Bonds of all Series or Tranches issued under the Programme. The Guarantee will be backed by the Cover Pool (as defined below). The recourse of the Bondholders to the Guarantor under the Guarantee will be limited to the assets of the Cover Pool. Payments made by the Guarantor under the Guarantee will be made subject to, and in accordance with, the relevant Priority of Payments.

(d) *Programme Agreement and Subscription Agreements*: The Issuer and the Dealer(s) have agreed that any Covered Bonds of any Series or Tranche which may from time to time be agreed between the Issuer and the Dealer(s) to be issued by the Issuer and subscribed for by such Dealer(s) shall be issued and subscribed for on the basis of, and in reliance upon, the representations,

warranties, undertakings and indemnities made or given or provided to be made or given pursuant to the terms of a programme agreement (the "**Programme Agreement**") entered into, on 18 June 2010, between the Issuer, the Guarantor, the Representative of the Bondholders and the Dealer(s). In addition, in relation to each Series or Tranche of Covered Bonds the Issuer, and the relevant Dealer(s) will enter into a subscription agreement on or about the date of the relevant Final Terms (the "**Subscription Agreement**"). According to the terms of the Programme Agreement, the Issuer has the faculty to nominate any institution as a new Dealer in respect of the Programme or nominate any institution as a new Dealer only in relation to a particular Series or Tranche of Covered Bonds upon satisfaction of certain conditions set out in the Programme Agreement.

(e) *Monte Titoli Mandate Agreement*: In a mandate agreement with Monte Titoli S.p.A. ("**Monte Titoli**") (the "**Monte Titoli Mandate Agreement**"), Monte Titoli has agreed to provide the Issuer with certain depository and administration services in relation to the Covered Bonds issued in bearer and dematerialised form.

(f) *Master Definitions Agreement*: In a master definitions agreement (the "**Master Definitions Agreement**") between, *inter alios*, the Issuer, the Guarantor, the Representative of the Bondholders and the Other Guarantor Creditors (as defined below), the definitions of certain terms used in the Programme Documents have been agreed.

(g) *The Covered Bonds*: Except where stated otherwise, all subsequent references in these Conditions to "**Covered Bonds**" are to the Covered Bonds which are the subject of the relevant Final Terms, but all references to "**each Series or Tranche of Covered Bonds**" are to (i) the Covered Bonds which are the subject of the relevant Final Terms and (ii) each other Series or Tranche of Covered Bonds issued under the Programme which remains outstanding from time to time.

(h) *Rules of the Organisation of the Bondholders*: The rules of the organisation of bondholders (the "**Rules**") are attached to, and form an integral part of, these Conditions. References in these Conditions to the Rules include such rules as from time to time modified in accordance with the provisions contained therein and any agreement or other document expressed to be supplemental thereto.

(i) *Summaries*: Certain provisions of these Conditions are summaries of the Programme Documents and are subject to their detailed provisions. Bondholders are entitled to the benefit of, are bound by and are deemed to have notice of all the provisions of the Programme Documents applicable to them. Copies of the Programme Documents are available for inspection by Bondholders during normal business hours at the registered office of the Representative of the Bondholders from time to time and, where applicable, at the Specified Office(s) of the Paying Agents.

2. INTERPRETATION

(a) *Definitions:*

In these Conditions the following expressions have the following meanings:

"**15% Limit**" means the limit of 15 per cent. (of the aggregate outstanding principal amount of the Cover Pool) of Top-Up Assets that may be included in the Cover Pool unless otherwise permitted by law or applicable regulation.

"**Accrual Yield**" has the meaning given in the relevant Final Terms.

"**Accrued Interest**" means, as of any Valuation Date and in relation to any Eligible Asset to be assigned as at that date, the portion of the Interest Instalment accrued, but not yet due, as at such date.

"**Additional Seller**" means any entity being part of the Montepaschi Group that may transfer one or more New Portfolios to the Guarantor following the accession to the Programme pursuant to the Programme Documents.

"**Additional Servicer**" means each Additional Seller which has been appointed as servicer in relation to the Assets transferred to the Guarantor, following the accession to the Programme and to the Master Servicing Agreement, pursuant to the Programme Documents.

"**Additional Subordinated Lender**" means each Additional Seller in its capacity as additional subordinated lender, pursuant to the relevant Subordinated Loan Agreement.

"**Adjustment Purchase Price**" means the purchase price adjusted on the basis of calculations carried out pursuant to clause 7 of the Master Assets Purchase Agreement.

"**Amortisation Test**" means the Test as indicated in clause 4 of the Cover Pool Management Agreement.

"**Assets**" means, collectively, the Eligible Assets and the Top-Up Assets.

"**Asset Backed Securities**" means, pursuant to article 2, sub-paragraph 1, of Decree No. 310 the asset backed securities for which a risk weight not exceeding 20 per cent. is applicable in accordance with the Bank of Italy's prudential regulations for banks - standardised approach - **provided that** at least 95 per cent. of the relevant securitised assets are:

(i) Residential Mortgage Loans;

(ii) Commercial Mortgage Loans;

(iii) Public Entity Receivables or Public Entity Securities,

and, in any case, complying with the requirements of the ECB Guidelines.

"**Asset Coverage Test**" has the meaning as indicated pursuant to clause 3 of the Cover Pool Management Agreement.

"**Asset Monitor**" means Deloitte & Touche S.p.A. in its capacity as asset monitor pursuant to the Asset Monitor Engagement Letter and the Asset Monitor Agreement.

"**Asset Monitor Agreement**" means the agreement entered on 18 June 2010 between, *inter alios*, the Asset Monitor, the Issuer and the Guarantor, as amended from time to time.

"**Asset Monitor Engagement Letter**" means the engagement letter entered into, on 18 June 2010, between the Issuer and the Asset Monitor in order to perform specific agreed upon procedures concerning, *inter alia*, (i) the fulfilment of the eligibility criteria set out under Decree No. 310 with respect to the Eligible Assets and Top-Up Assets included in the Cover Pool; (ii) the compliance with the limits to the transfer of the Eligible Assets set out under Decree No. 310; and (iii) the effectiveness and adequacy of the risk protection provided by any Swap Agreement entered into in the context of the Programme.

"**Asset Swap Agreement**" means any asset swap agreement which may be entered into between an Asset Swap Provider and the Guarantor.

"**Asset Swap Provider**" means any entity acting as swap counterparty under an Asset Swap Agreement.

"**Back-Up Account Bank**" means any of the Italian Back-Up Account Bank and the English Back-Up Account Bank.

"**Back-Up Servicer**" means Securitisation Services S.p.A. or any other entity that will be appointed in such capacity by the Guarantor, together with the Representative of the Bondholders, pursuant to clause 10.1 of the Master Servicing Agreement.

"**Bank of Italy Regulations**" means the regulations No. 285 issued by the Bank of Italy on 17 December 2013, as supplemented from time to time.

"**Bankruptcy Law**" means Royal Decree No. 267 of 16 March 1942, as subsequently amended and supplemented.

"**Base Interest**" has the meaning given to the term "*Interesse Base*" pursuant to the Subordinated Loan Agreement.

"**English Back-Up Account Bank**" means The Bank of New York Mellon S.A.\N.V., London Branch or any other entity appointed to act as such pursuant to the Cash Allocation, Management and Payments Agreement.

"**BMPS**" means Banca Monte dei Paschi di Siena S.p.A..

"**Bondholders**" means the holders from time to time of the Covered Bonds included in each Series or Tranche of Covered Bonds.

"**Breach of Tests Cure Notice**" means the notice delivered by the Representative of the Bondholders in accordance with the terms of the Cover Pool Management Agreement.

"**Breach of Test Notice**" means the notice delivered by the Representative of the Bondholders in accordance with the terms of the Cover Pool Management Agreement following the infringement of one of the Tests prior to an Issuer Event of Default and/or a Guarantor Event of Default.

"**Business Day**" means any day (other than a Saturday or Sunday) on which banks are generally open for business in Milan, Luxembourg and London and on which the Trans-European Automated Real Time Gross Settlement Express Transfer System (TARGET 2) (or any successor thereto) is open.

"**Business Day Convention**", in relation to any particular date, has the meaning given in the relevant Final Terms and, if so specified in the relevant Final Terms, may have different meanings in relation to different dates and, in this context, the following expressions shall have the following meanings:

(i) "**Following Business Day Convention**" means that the relevant date shall be postponed to the first following day that is a Business Day;

(ii) "**Modified Following Business Day Convention**" or "**Modified Business Day Convention**" means that the relevant date shall be postponed to the first following day that is a Business Day unless that day falls in the next calendar month in which case that date will be the first preceding day that is a Business Day;

(iii) "**Preceding Business Day Convention**" means that the relevant date shall be brought forward to the first preceding day that is a Business Day;

(iv) "**FRN Convention**", "**Floating Rate Convention**" or "**Eurodollar Convention**" means that each relevant date shall be the date which numerically corresponds to the preceding such date in the calendar month which is the number of months specified in the relevant Final Terms as the Specified Period after the calendar month in which the preceding such date occurred provided, however, that:

   (A) if there is no such numerically corresponding day in the calendar month in which any such date should occur, then such date will be the last day which is a Business Day in that calendar month;

   (B) if any such date would otherwise fall on a day which is not a Business Day, then such date will be the first following day which is a Business Day unless that day falls in the next calendar month, in which case it will be the first preceding day which is a Business Day; and

   (C) if the preceding such date occurred on the last day in a calendar month which was a Business Day, then all subsequent such dates will be the last day which is a Business Day in the calendar month which is the specified number of months after the calendar month in which the preceding such date occurred; and

(v) "**No Adjustment**" means that the relevant date shall not be adjusted in accordance with any Business Day Convention.

"**Calculation Amount**" is the amount used for the calculation of interest amounts and redemption amounts for the relevant covered bonds as specified in the relevant Final Terms.

"**Calculation Period**" means the period from one Guarantor Calculation Date (included) to the next Guarantor Calculation Date (excluded).

"**Call Option**" has the meaning given in the relevant Final Terms.

"**Cash Allocation, Management and Payments Agreement**" means the cash allocation, management and payments agreement entered on 18 June 2010 between, *inter alios*, the Guarantor, the Representative of the Bondholders, the Paying Agent(s), the Italian Account Bank and the English Account Bank, as amended from time to time.

"**Cash Manager**" means BMPS acting in such capacity pursuant to the Cash Allocation, Management and Payments Agreement or any other entity acting in such capacity pursuant to the Cash Allocation, Management and Payments Agreement.

"**Cash Manager Report**" means the report produced by the Cash Manager pursuant to the Cash Allocation, Management and Payments Agreement.

"**Cessation of Business**" means, with respect to the Issuer, the loss of the banking licence.

"**Civil Code**" means the Italian civil code, enacted by Royal Decree No. 262 of 16 March 1942, as subsequently amended and supplemented.

"**Clearstream**" means Clearstream Banking *société anonyme*, Luxembourg with offices at 42 avenue JF Kennedy, L-1855 Luxembourg.

"**Collateral Account(s)**" means any other cash and/or securities account (different from the Guarantor's Accounts) opened by the Guarantor pursuant to clause 7.4 of the Intercreditor Agreement.

"**Collateral Security**" means any security (including any loan mortgage insurance and excluding Mortgages) granted to the Principal Seller (or any Additional Seller(s), if any) by any Debtor in order to guarantee the payment and/or redemption of any amounts due under the relevant Mortgages Loan Agreement.

"**Collection Date**" means (i) prior to the service of a Guarantor Default Notice, the first calendar day of each month; and (ii) following the service of a Guarantor Default Notice, each date determined by the Representative of the Bondholders as such.

"**Collection Period**" means the Monthly Collection Period and/or the Quarterly Collection Period, as applicable.

"**Collections**" means all amounts received or recovered by the Servicer in respect of the Assets included in the Cover Pool.

"**Commercial Mortgage Loan**" means, pursuant to article 2, sub-paragraph 1, of Decree No. 310 a commercial mortgage loan in respect of which the relevant amount

outstanding added to the principal amount outstanding of any higher ranking mortgage loans secured by the same property does not exceed 60 per cent. and for which the hardening period with respect to the perfection of the relevant mortgage has elapsed.

"**CONSOB**" means Commissione Nazionale per le Società e la Borsa.

"**Consolidated Banking Act**" means Legislative Decree No. 385 of 1 September 1993, as subsequently amended and supplemented.

"**Corporate Services Agreement**" means the corporate services agreement entered on 18 June 2010 between, *inter alios*, the Guarantor and the Guarantor Corporate Servicer.

"**Corresponding Interest**" has the meaning given to the term "Interesse Collegato" in the Subordinated Loan Agreement.

"**Corresponding Series or Tranche of Covered Bonds**" means, in respect of a Fixed Interest Term Loan or a Floating Interest Term Loan, the Series or Tranche of Covered Bonds issued or to be issued pursuant to the Programme and notified by the Subordinated Lender to the Guarantor in the relevant Term Loan Proposal.

"**Cover Pool**" means the cover pool constituted by (i) Receivables; (ii) any other Eligible Assets; and (iii) any Top-Up Assets.

"**Cover Pool Management Agreement**" means the Cover Pool management agreement entered on 18 June 2010 between, *inter alios*, the Issuer, the Guarantor, the Principal Seller, the Pre-Issuer Default Test Calculation Agent, the Post-Issuer Default Test Calculation Agent, the Guarantor Calculation Agent and the Representative of the Bondholders, as amended from time to time.

"**Covered Bond Swap Agreement**" means each International Swaps and Derivatives Association ("**ISDA**") 1992 Master Agreement (Multicurrency Cross Border) (together with the Schedule and credit support annex thereto and the confirmations evidencing interest rate swap transactions thereunder) entered into from time to time between the Guarantor and a Covered Bond Swap Provider, as amended from time to time.

"**Covered Bond Swap Provider**" means any entity acting as covered bond swap provider under a Covered Bond Swap Agreement to the Guarantor and "Covered Bond Swap Providers" means more than one of them.

"**Covered Bonds**" means the Covered Bonds (*Obbligazioni Bancarie Garantite*) of each Series or Tranche issued or to be issued by the Issuer in the context of the Programme.

"**Day Count Fraction**" means, in respect of the calculation of an amount for any period of time (the "**Calculation Period**"), such day count fraction as may be specified in the Terms and Conditions or the relevant Final Terms and:

(i) if "**Actual/Actual (ICMA)**" is so specified, means:

(A) where the Calculation Period is equal to or shorter than the Regular Period during which it falls, the actual number of days in the Calculation

Period divided by the product of (1) the actual number of days in such Regular Period and (2) the number of Regular Periods in any year; and

(B) where the Calculation Period is longer than one Regular Period, the sum of:

(1) the actual number of days in such Calculation Period falling in the Regular Period in which it begins divided by the product of (a) the actual number of days in such Regular Period and (b) the number of Regular Periods in any year; and

(2) the actual number of days in such Calculation Period falling in the next Regular Period divided by the product of (a) the actual number of days in such Regular Period and (b) the number of Regular Periods in any year;

(ii) if "**Actual/Actual (ISDA)**" is so specified, means the actual number of days in the Calculation Period divided by 365 (or, if any portion of the Calculation Period falls in a leap year, the sum of (A) the actual number of days in that portion of the Calculation Period falling in a leap year divided by 366 and (B) the actual number of days in that portion of the Calculation Period falling in a non-leap year divided by 365);

(iii) if "**Actual/365 (Fixed)**" is so specified, means the actual number of days in the Calculation Period divided by 365;

(iv) if "**Actual/360**" is so specified, means the actual number of days in the Calculation Period divided by 360;

(v) if "**30/360**" is so specified, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows

$$\text{Day Count Fraction} = \frac{[360x(Y_2 - Y_1)] + [30x(M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

"**Y1**" is the year, expressed as a number, in which the first day of the Calculation Period falls;

"**Y2**" is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"**M1**" is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

"**M2**" is the calendar month, expressed as number, in which the day immediately following the last day included in the Calculation Period falls;

"**D1**" is the first calendar day, expressed as a number, of the Calculation Period, unless such number would be 31, in which case D1 will be 30; and

"**D2**" is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless such number would be 31 and D1 is greater than 29, in which case D2 will be 30";

(vi) if "**30E/360**" or "Eurobond Basis" is so specified, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360x(Y_2 - Y_1)] + [30x(M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

"**Y1**" is the year, expressed as a number, in which the first day of the Calculation Period falls;

"**Y2**" is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"**M1**" is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

"**M2**" is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"**D1**" is the first calendar day, expressed as a number, of the Calculation Period, unless such number would be 31, in which case D1 will be 30; and

"**D2**" is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless such number would be 31, in which case D2 will be 30; and

(vii) if "**30E/360 (ISDA)**" is so specified, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360x(Y_2 - Y_1)] + [30x(M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

"**Y1**" is the year, expressed as a number, in which the first day of the Calculation Period falls;

"**Y2**" is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"**M1**" is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

"**M2**" is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"**D1**" is the first calendar day, expressed as a number, of the Calculation Period, unless (i) that day is the last day of February or (ii) such number would be 31, in which case D1 will be 30; and

"**D2**" is the calendar day, expressed as a number, immediately following the last day included in the Calculation 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 D2 will be 30,

provided, however, that in each such case the number of days in the Calculation Period is calculated from and including the first day of the Calculation Period to but excluding the last day of the Calculation Period.

"**DBRS**" means DBRS Ratings Limited.

"**DBRS Equivalent Rating**" means the DBRS rating equivalent of any of the below ratings by Moody's, Fitch or S&P:

DBRS	Moody's	S&P	Fitch
AAA	Aaa	AAA	AAA
AA(high)	Aa1	AA+	AA+
AA	Aa2	AA	AA
AA(low)	Aa3	AA-	AA-
A(high)	A1	A+	A+
A	A2	A	A
A(low)	A3	A-	A-
BBB(high)	Baa1	BBB+	BBB+
BBB	Baa2	BBB	BBB
BBB(low)	Baa3	BBB-	BBB-
BB(high)	Ba1	BB+	BB+
BB	Ba2	BB	BB
BB(low)	Ba3	BB-	BB-
B(high)	B1	B+	B+
B	B2	B	B
B(low)	B3	B-	B-
CCC(high)	Caa1	CCC+	CCC+
CCC	Caa2	CCC	CCC
CCC(low)	Caa3	CCC-	CCC-
CC	Ca	CC	CC
C	C	D	D

"**DBRS Rating**" is any of the following:

- Public rating
- Private rating
- Internal assessment

(a) if a Fitch public rating, a Moody's public rating and an S&P public rating in respect of the Eligible Investment or the Eligible Institution (each, a "**Public Long Term Rating**") are all available at such date, the DBRS Rating will be the DBRS Equivalent Rating of such Public Long Term Rating remaining after disregarding the highest and lowest of such Public Long Term Ratings from such rating agencies (**provided that** if such Public Long Term Rating is under credit watch negative, or the equivalent, then the DBRS Equivalent Rating will be considered one notch below). For this purpose, if more than one Public Long Term Rating has the same highest DBRS Equivalent Rating or the same lowest DBRS Equivalent Rating, then in each case one of such Public Long Term Ratings shall be so disregarded;

(b) if the DBRS Rating cannot be determined under (a) above, but Public Long Term Ratings of the Eligible Investment by any two of Fitch, Moody's and S&P are available at such date, the DBRS Equivalent Rating of the lower such Public Long Term Rating (**provided that** if such Public Long Term Rating is under credit watch negative, or the equivalent, then the DBRS Equivalent Rating will be considered one notch below); and

(c) if the DBRS Rating cannot be determined under (a) and (b) above, but Public Long Term Ratings by any one of Fitch, Moody's and S&P are available at such date, then the DBRS Equivalent Rating will be such Public Long Term Rating (**provided that** if such Public Long Term Rating is under credit watch negative, or the equivalent, then the DBRS Equivalent Rating will be considered one notch below).

If at any time the DBRS Rating cannot be determined under subparagraphs (a) to (c) above, the DBRS Rating will be deemed to be of "C" at such time.

"**Dealers**" means NatWest Markets Plc, Morgan Stanley & Co. International plc, MPS Capital Services Banca per le Imprese S.p.A. and any other entity that will be appointed as such by the Issuer by means of the subscription of a letter under the terms or substantially under the terms provided in schedule 6 of the Programme Agreement.

"**Debtor**" means (i) with reference to the Mortgage Loans, any borrower and any other person, other than a Mortgagor, who entered into a Mortgage Loan Agreement as principal debtor or guarantor or who is liable for the payment or repayment of amounts due in respect of a Mortgage Loan, as a consequence, *inter alia*, of having granted any Collateral Security or having assumed the borrower's obligation under an accollo, or otherwise; and (ii) with reference to the Asset Backed Securities, the relevant Issuer.

"**Decree No. 213**" means Italian Legislative Decree No. 213 of 24 June 1998, as amended and supplemented from time to time.

"**Decree No. 239**" means the Italian Legislative Decree No. 239 of 1 April 1996, as subsequently amended and supplemented.

"**Decree No. 310**" means the ministerial decree No. 310 of 14 December 2006 issued by the Ministry of the Economy and Finance, as subsequently amended and supplemented.

"**Deed of Pledge**" means the Italian law deed of pledge entered on 18 June 2010.

"**Drawdown Date**" means the date indicated in each Term Loan Proposal on which a Term Loan is granted pursuant to the Subordinated Loan Agreement (or, in respect of any Additional Subordinated Lenders, pursuant to the relevant Subordinated Loan Agreement) during the Subordinated Loan Availability Period.

"**Due for Payment**" means the requirement for the Guarantor to pay any Guaranteed Amounts following the delivery of a Guarantee Enforcement Notice after the occurrence of certain Issuer Event of Default, such requirement arising: (i) prior to the occurrence of a Guarantor Event of Default, on the date on which the Guaranteed Amounts are due and payable in accordance with the Terms and Conditions and the Final Terms of the relevant Series or Tranche of Covered Bonds (being the relevant Maturity Date or Extended Maturity Date, as the case may be); and (ii) following the occurrence of a Guarantor Event of Default, the date on which the Guarantor Default Notice is served on the Guarantor.

"**Earliest Maturing Covered Bonds**" means, at any time, the Series or Tranche of Covered Bonds that has or have the earliest Maturity Date (if the relevant Series or Tranche of Covered Bonds is not subject to an Extended Maturity Date) or Extended Maturity Date (if the relevant Series or Tranche of Covered Bonds is subject to an Extended Maturity Date) as specified in the relevant Final Terms.

"**Early Redemption Amount (Tax)**" means, in respect of any Series of Covered Bonds, the principal amount of such Series or such other amount as may be specified in, or determined in accordance with, the relevant Final Terms.

"**Early Termination Amount**" means, in respect of any Series or Tranche of Covered Bonds, the principal amount of such Series or Tranche or such other amount as may be specified in, or determined in accordance with, the Terms and Conditions or the relevant Final Terms.

"**ECB Guidelines**" means the Guideline of the European Central Bank of 20 September 2011 (ECB/2011/14), published on the Official Gazette of the European Union No. 331 of 14 December 2011, as amended by the Guideline of the European Central Bank on 26 November 2012 (ECB/2012/25) published on the Official Gazette of the European Union No. 348 on 18 December 2012, both relating to monetary policy instruments and procedures of the Eurosystem, and the decisions of the European Central Bank dated, respectively, 20 March 2013 (ECB/2013/6), on the rules concerning the use as collateral for Eurosystem monetary policy operations of own-use uncovered government-guaranteed bank bonds, and 26 September 2013 on additional measures relating to Eurosystem refinancing operations and eligibility of collateral (ECB/2013/35), as subsequently amended and supplemented.

"**Eligible Assets**" means the following assets contemplated under article 2, sub-paragraph 1, of Decree No. 310:

(i) Residential Mortgage Loans;

(ii) Asset Backed Securities.

"**Eligible Institution**" means any credit institution incorporated under the laws of any state which is a member of the EEA or of the United States, whose short-term unsecured and unsubordinated debt obligations with respect to DBRS have a DBRS Rating or DBRS Equivalent Rating equal to the Minimum DBRS Rating, at least "F-1" by Fitch, and at least "P-1" by Moody's and whose long-term unsecured and unsubordinated debt obligations are rated at least "A" by Fitch and at least "P-1" by Moody's no long term Moody's rating, (**provided that**, if any of the above credit institutions is on rating watch negative, it shall be treated as one notch below its current Fitch rating) or any other rating level from time to time provided for in the Rating Agencies' criteria.

"**Eligible Investment**" means any investment denominated in Euro (unless a suitable hedging is in place) that has a maturity date falling, and which is redeemable at par together with accrued unpaid interest, no later than the next following Eligible Investment Liquidation Date and that is an obligation of a company incorporated in, or a sovereign issuer of, a Qualifying Country (as defined below), **provided that** in case of downgrade below such rating level the securities will be sold, if it could be achieved without a loss, otherwise the securities shall be allowed to mature, and is one or more of the following obligations or securities (including, without limitation, any obligations or securities for which the Cash Manager or the Representative of the Bondholders or an affiliate of any of them provides services):

(i) direct obligations of any agency or instrumentality of a sovereign of a Qualifying Country, the obligations of which agency or instrumentality are unconditionally and irrevocably guaranteed in full by a Qualifying Country, a "Qualifying Country" being a country rated at the time of such investment or contractual commitment providing for such investment in such obligations, at least "AA-" or "F1+" by Fitch "Aa3" and "P-1" by Moody's and AA (low) or R-1 (middle) by DBRS;

(ii) demand and time deposits in, certificates of deposit of and bankers' acceptances issued by any depositary institution or trust company (including, without limitation, the English Account Bank and the Italian Account Bank) incorporated under the laws of a Qualifying Country with, in each case, a maturity of no more than 30 days (and in any case falling prior to the immediately following Eligible Investment Liquidation Date) and subject to supervision and examination by governmental banking authorities, **provided that** the commercial paper and/or the debt obligations of such depositary institution or trust company (or, in the case of the principal depositary institution in a holding company system, the commercial paper or debt obligations of such holding company) at the time of such investment or contractual commitment providing for such investment have a credit rating of at least "A" and "F1" by Fitch, "A2" and "P-1" by Moody's and with respect to DBRS rated according to the "DBRS A" table;

(iii) any security rated at least (A) "P-1" by Moody's, "A" and "F1" by Fitch and with respect to DBRS according to the DBRS A, if the relevant maturity is up to 30 calendar days, (B) "P-1" by Moody's "AA-" or "F1+" by Fitch and with respect to DBRS according DBRS B table, if the relevant maturity is up to 365 calendar days **provided that**, in all cases, the maximum aggregate total exposures in general to classes of assets with certain ratings by the Ratings

Agencies will, if requested by any Rating Agencies, be limited to the maximum percentages specified by any such Rating Agencies;

(iv) any Top-Up Asset and/or Public Entity Securities and/or Asset Backed Securities, **provided that**, in all cases, such investments shall from time to time comply with Rating Agencies' criteria;

(v) subject to the rating of the Covered Bonds not being affected, unleveraged repurchase obligations with respect to: (1) commercial paper or other short-term obligations having, at the time of such investment, a credit rating of at least "AA-" or "F1+" by Fitch, "Aa3" and "P-1" by Moody's and a maturity of not more than 180 days from their date of issuance and with respect to DBRS, a credit rating of the counterparty according to the DBRS A and DBRS B tables; (2) off-shore money market funds rated, at all times, "AAA/V-1" by Fitch and "Aaa/MR1+" by Moody's and with respect to DBRS, a credit rating of the counterparty according to the tables DBRS A and DBRS B; and (3) any other investment similar to those described in paragraphs (1) and (2) above: (a) **provided that** any such other investment will not affect the rating of the Covered Bonds; and (b) which has the same rating as the investment described in paragraphs (1) and (2) above, **provided that**, (x) in any event, none of the Eligible Investments set out above may consist, in whole or in part, actually or potentially, of credit-linked notes or similar claims resulting from the transfer of credit risk by means of credit derivatives nor may any amount available to the Guarantor in the context of the Programme otherwise be invested in any such instruments at any time and (y) title to the securities underlying such repurchase transactions (in the period between the execution of the relevant repurchase transactions and their respective maturity) effectively passes (as confirmed by a non qualified legal opinion by a primary standing law firm) to the Issuer and the obligations of the relevant counterparty are not related to the performance of the underlying securities.

DBRS A Table:

Eligible Investments with a maturity up to 30 days: CB Rating	Eligible Investment Rating
AAA	A or R-1(middle)
AA (high)	A or R-1(middle)
AA	A or R-1(middle)
AA (low)	A or R-1(middle)
A (high)	BBB (high) or R-2 (high)
A	BBB or R-2 (middle)
A (low)	BBB (low) or R-2 (low)
BBB (high)	BBB (low) or R-2 (low)
BBB	BBB (low) or R-2 (low)
BBB (low)	BBB (low) or R-2 (low)
BB (high)	BB (high) or R-3
BB	BB or R-4
BB (low)	BB (low) or R-4

DBRS B Table

Maximum maturity	CB rated at least AA (low)	CB rated between A (high) and A (low)	CB rated BBB (high) and below
90 days	AA (low) or R-1 (middle)	A (low) or R-1 (low)	BBB (low) or R-2 (middle)
180 days	AA or R-1 (high)	A or R-1 (low)	BBB or R-2 (high)
365 days	AAA or R-1 (high)	A (high) or R-1 (middle)	BBB or R-2 (high)

"**Eligible Investment Date**" means, in respect of any investment in Eligible Investments made or to be made in accordance with the Programme Documents, any Business Day immediately after a Guarantor Payment Date.

"**Eligible Investment Liquidation Date**" means, in respect of any investment in Eligible Investments made or to be made in accordance with the Programme Documents, two Business Days before the Guarantor Calculation Date immediately following the relevant Eligible Investment Date.

"**Eligible Investments Securities Account**" means the securities account number 284175,31 opened in the name of the Guarantor with the Italian Account Bank or any other substitutive account that may be opened in accordance with the Cash Allocation, Management and Payments Agreement.

"**English Account Bank**" means Banca Monte dei Paschi di Siena S.p.A..

"**English Account**" means each of the Main Programme Account and the Reserve Account, and "English Accounts" means all of them.

"**English Account Bank Agreement**" means the English Account Bank agreement entered on 18 June 2010 between, *inter alios*, the Issuer, the Guarantor, the Italian Account Bank, the English Account Bank and the Representative of the Bondholders, as amended from time to time.

"**EONIA**" means the weighted average of overnight Euro Interbank Offer Rates for inter-bank loans and for Euro currency deposits.

"**EU Insolvency Regulation**" means Council Regulation (EC) No. 1346/2000 of 29 May 2000.

"**EU Directive on the Reorganisation and Winding up of Credit Institutions**" means Directive 2001/2/EC of the European Parliament and of the Council of 4 April 2001 on the reorganisation and winding up of credit institutions.

"**EURIBOR**" (1) with respect to the Covered Bonds, has the meaning ascribed to it in the relevant Final Terms; and (2) with reference to each Loan Interest Period, means the rate denominated "Euro Interbank Offered Rate" (i) at 3 (three) months (**provided that** for the First Loan Interest Period, such rate will be calculated on the basis of the linear interpolation of 3-month Euribor and 4-month Euribor), published on Reuters'

page "Euribor01" on the menu "Euribor" or (A) in the different page which may substitute the Reuters' page "Euribor01" on the menu "Euribor", or (B) in the event such page or such system is not available, on the page of a different system containing the same information that can substitute Reuters' page "Euribor01" on the menu "Euribor" (or, in the event such page is available from more than one system, in the one selected by the Representative of the Bondholders) (hereinafter, the "**Screen Rate**") at 11.00 a.m. (Brussels time) of the date of determination of Interest falling immediately before the beginning of such Loan Interest Period; or (ii) in the event that on any date of determination of Interest the Screen Rate is not published, the reference rate will be the arithmetic average (rounded off to three decimals) of the rates communicated to the Guarantor Calculation Agent, following request of such Guarantor Calculation Agent, by the Reference Banks at 11.00 a.m. (Brussels time) on the relevant date of determination of Interest and offered to other financial institutions of similar standing for a reference period similar to such Loan Interest Period; or (ii) in the event the Screen Rate is not available and only two or three Reference Banks communicate the relevant rate quotations to the Guarantor Calculation Agent, the relevant rate shall be determined, as described above, on the basis of the rate quotations provided by the Reference Banks; or (iv) in the event that the Screen Rate is not available and only one or no Reference Banks communicate such quotation to the Guarantor Calculation Agent, the relevant rate shall be the rate applicable to the immediately preceding period under sub-paragraphs (i) or (ii) above, **provided that** if the definition of Euribor is agreed differently in the context of the Asset Swap Agreement entered into by and between the Guarantor and an Asset Swap Provider in the context of the Programme, such definition will replace this definition.

"**Euro**", "**€**" and "**EUR**" refer to the single currency of member states of the EEA which adopt the single currency introduced in accordance with the Treaty.

"**Euro Equivalent**" means, in case of an issuance of Covered Bonds denominated in currency other than the Euro, an equivalent amount expressed in Euro calculated at the prevailing exchange rate.

"**Euroclear**" means Euroclear Bank S.A./N.V., with offices at 1 boulevard du Roi Albert II, B-1210 Brussels.

"**European Economic Area**" means the region comprised of member states of the EEA which adopt the Euro currency in accordance with the Treaty.

"**Excess Assets**" means, collectively, any Eligible Asset and Top-Up Asset forming part of the Cover Pool which are in excess for the purpose of satisfying the Tests.

"**Execution Date**" means (i) with respect to the assignment of the Initial Portfolio, the date falling on the date on which the Principal Seller receives from the Guarantor the letter of acceptance of the Master Assets Purchase Agreement, Master Servicing Agreement, Warranty and Indemnity Agreement and Subordinated Loan Agreement, and (ii) with respect to the assignment of each New Portfolio, the date on which each of the Principal Seller or Additional Seller (if any) receives from the Guarantor the letter of acceptance of the relevant Transfer Proposal.

"**Expenses**" means any documented fees, costs, expenses and taxes required to be paid to any third party creditors (other than the Bondholders and the Other Guarantor

Creditors) arising in connection with the Programme, and required to be paid in order to preserve the existence of the Guarantor or to maintain it in good standing, or to comply with applicable laws and legislation.

"**Expenses Account**" means the account denominated in Euro and opened on behalf of the Guarantor with the Italian Account Bank, IBAN IT 81 J 01030 12000 000000736131, or any other substitutive account that may be opened pursuant to the Cash Allocation, Management and Payments Agreement.

"**Extended Maturity Date**" means, in relation to a specific Series or Tranche of Covered Bonds, the date falling 38 years after the relevant Maturity Date.

"**Extension Determination Date**" means, with respect to each Series or Tranche of Covered Bonds, the date falling 4 calendar days after the Maturity Date of the relevant Series.

"**Final Redemption Amount**" means, in respect of any Series or Tranche of Covered Bonds, the principal amount of such Series.

"**Final Terms**" means, in relation to any issue of any Series or Tranche of Covered Bonds, the relevant terms contained in the applicable Programme Documents and, in case of any Series or Tranche of Covered Bonds to be admitted to listing, the final terms submitted to the appropriate listing authority on or before the Issue Date of the applicable Series or Tranche of Covered Bonds.

"**Financial Laws Consolidation Act**" means Italian Legislative Decree No. 58 of 24 February 1998, as amended and supplemented from time to time.

"**First Interest Payment Date**" means the date specified in the relevant Final Terms.

"**First Issue Date**" means the Issue Date of the first Covered Bonds issued under the Programme.

"**First Loan Interest Period**" means, in relation to any Term Loan, the period starting on the relevant Drawdown Date (exclusive) and ending on the first following Guarantor Payment Date (inclusive).

"**First Series of Covered Bonds**" means the first Series of Covered Bonds issued by the Issuer in the context of the Programme.

"**First Tranche of Covered Bonds**" means if applicable the first Tranche of Covered Bonds issued by the Issuer in the context of the issuance of the First Series of Covered Bonds.

"**Fitch**" means Fitch Ratings Ltd.

"**Fixed Coupon Amount**" has the meaning given in the relevant Final Terms.

"**Fixed Interest Term Loan**" means any Term Loan granted under the Subordinated Loan Agreement in respect of which a fixed rate Corresponding Interest applies as

indicated in the relevant Term Loan Proposal and corresponding to the interest payable on the corresponding Series or Tranche of Covered Bonds.

"**Fixed Rate Provisions**" has the meaning set out in Condition 5 (*Fixed Rate Provisions*).

"**Floating Interest Term Loan**" means any Term Loan granted under the Subordinated Loan Agreement in respect of which a floating rate Corresponding Interest applies as indicated in the relevant Term Loan Proposal and corresponding to the interest payable on the corresponding Series or Tranche of Covered Bonds.

"**Floating Rate Provisions**" has the meaning given in the relevant Final Terms.

"**FSMA**" means the Financial Services and Markets Act 2000, as amended from time to time.

"**Guarantee**" means the guarantee granted by the Guarantor for the purpose of guaranteeing the payments owed by the Issuer to the Bondholders and to the Other Guarantor Creditors pursuant to Law 130, Decree No. 310 and the Bank of Italy Regulations.

"**Guarantee Enforcement Notice**" means the notice to be served by the Representative of the Bondholders upon occurrence of certain Issuer Event of Default as better specified in Condition 12.2 (*Issuer Event of Default*).

"**Guaranteed Amounts**" means the Redemption Amount, the Interest Amount and any other amounts due from time to time by the Issuer to the Bondholders with respect to each Series or Tranche of Covered Bonds, including, for avoidance of doubt and without double counting, any amount that have been already paid timely by (or on behalf of) the Issuer to the Bondholders, to the extent it was clawed-back thereafter by a bankruptcy receiver, liquidator or other duly appointed officer upon opening of any bankruptcy proceedings or other similar insolvency proceedings of the Issuer.

"**Guaranteed Obligations**" means the payment obligations with respect to the Guaranteed Amounts.

"**Guarantee Priority of Payments**" means the order of priority pursuant to which the Guarantor Available Funds shall be applied on each Guarantor Payment Date, following the delivery of a Guarantee Enforcement Notice and prior to the delivery of a Guarantor Default Notice, in accordance with the Intercreditor Agreement.

"**Guarantor**" means MPS Covered Bond S.r.l. acting in its capacity as guarantor pursuant to the Guarantee.

"**Guarantor's Accounts**" means, collectively, the Italian Collection Account, the Italian Securities Collection Account, the Main Programme Account, the Expenses Account, the Eligible Investments Securities Account and any other account opened in the context of the Programme with the exception of any Collateral Account(s) as defined pursuant to clause 7.4 of the Intercreditor Agreement.

"**Guarantor Available Funds**" means, collectively, the Interest Available Funds and the Principal Available Funds.

"**Guarantor Calculation Agent**" means Securitisation Services S.p.A. or any other entity acting in such capacity pursuant to the terms of the Cover Pool Management Agreement.

"**Guarantor Calculation Date**" means the date falling on the 22nd calendar day of March, June, September and December, or, if such day is not a Business Day, the immediately succeeding Business Day.

"**Guarantor Corporate Servicer**" means Securitisation Services S.p.A. or any other entity acting in such capacity pursuant to the terms of the Corporate Services Agreement.

"**Guarantor Default Notice**" means the notice to be served by the Representative of the Bondholders in case of a Guarantor Event of Default.

"**Guarantor Event of Default**" has the meaning given to it in the Terms and Conditions of the Covered Bonds.

"**Guarantor Payment Date**" means (a) prior to the delivery of a Guarantor Default Notice, the date falling 5 Business Days after the Guarantor Calculation Date of March, June, September and December or, if such day is not a Business Day, the immediately following Business Day; and (b) following the delivery of a Guarantor Default Notice, any day on which any payment is required to be made by the Representative of the Bondholders in accordance with the Post-Enforcement Priority of Payments, the relevant Terms and Conditions and the Intercreditor Agreement.

"**IFRS**" means international financial reporting and accounting standards issued by the International Accounting Standards Board (IASB).

"**Individual Purchase Price**" means:

(i) with respect to each Receivable transferred pursuant to the Master Assets Purchase Agreements, the most recent book value (*ultimo valore di iscrizione in bilancio*) of the relevant Receivable:

   (A) *minus* the aggregate amount of (1) the accrued interest obtained at the date of the last financial statement with reference to such Receivable and included in such book value; and (2) any collections with respect to principal received by the relevant Seller with respect to such Receivable, starting from the date of the most recent financial statement (*ultimo bilancio*) until the relevant Valuation Date (included); and

   (B) increased of the aggregate amount of the Accrued Interest with respect to such Receivable obtained at the relevant Valuation Date;

(ii) such other value, pursuant to article 7-*bis*, sub-paragraph 7, of Law 130, as indicated by the Principal Seller (or each Additional Seller, if any) in the

relevant Transfer Proposal (also with respect to any further Eligible Assets different from the Receivables or any Top-Up Assets).

"**Initial Portfolio**" means the first portfolio of Receivables and related Security Interests purchased by the Guarantor pursuant to the Master Assets Purchase Agreement.

"**Initial Portfolio Purchase Price**" means the consideration paid by the Guarantor to the Principal Seller for the transfer of the Initial Portfolio, calculated in accordance with clause 5.1 of the Master Assets Purchase Agreement.

"**Insolvency Event**" means in respect of any company, entity or corporation that:

(i) such company, entity or corporation has become subject to any applicable bankruptcy, liquidation, administration, insolvency, composition or reorganisation (including, without limitation, "*fallimento*", "*liquidazione coatta amministrativa*", "*concordato preventivo*" and "*amministrazione straordinaria*", each such expression bearing the meaning ascribed to it by the laws of the Republic of Italy, and including the seeking of liquidation, winding-up, reorganisation, dissolution, administration) or similar proceedings or the whole or any substantial part of the undertaking or assets of such company, entity or corporation are subject to a *pignoramento* or any procedure having a similar effect (other than in the case of the Guarantor, any portfolio of assets purchased by the Guarantor for the purposes of further programme of issuance of Covered Bonds), unless in the opinion of the Representative of the Bondholders, (who may in this respect rely on the advice of a legal adviser selected by it), such proceedings are being disputed in good faith with a reasonable prospect of success; or

(ii) an application for the commencement of any of the proceedings under (i) above is made in respect of or by such company, entity or corporation or such proceedings are otherwise initiated against such company, entity or corporation and, in the opinion of the Representative of the Bondholders (who may in this respect rely on the advice of a legal adviser selected by it), the commencement of such proceedings are not being disputed in good faith with a reasonable prospect of success; or

(iii) such company, entity or corporation takes any action for a re-adjustment of deferment of any of its obligations or makes a general assignment or an arrangement or composition with or for the benefit of its creditors (other than, in case of the Guarantor, the creditors under the Programme Documents) or is granted by a competent court a moratorium in respect of any of its indebtedness or any guarantee of any indebtedness given by it or applies for suspension of payments (other than, in respect of the Issuer, the issuance of a resolution pursuant to Article 74 of the Consolidated Banking Act); or

(iv) an order is made or an effective resolution is passed for the winding-up, liquidation or dissolution in any form of such company, entity or corporation or any of the events under article 2484 of the Civil Code occurs with respect to such company, entity or corporation (except in any such case a winding-up or other proceeding for the purposes of or pursuant to a solvent amalgamation or

reconstruction, the terms of which have been previously approved in writing by the Representative of the Bondholders); or

(v) such company, entity or corporation becomes subject to any proceedings equivalent or analogous to those above under the law of any jurisdiction in which such company or corporation is deemed to carry on business; or

(vi) such company, entity or corporation becomes subject to any proceedings resulting from the implementation of directive 2014/59/UE 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 (the "**Bank Recovery and Resolution Directive**").

"**Instalment**" means with respect to each Mortgage Loan Agreement, each instalment due from the relevant Debtor thereunder and which consists of an Interest Instalment and a Principal Instalment.

"**Instalment Amount**" has the meaning set out in Condition 9(h) (*Redemption and Purchase - Redemption by instalments)*.

"**Insurance Policies**" means (i) each insurance policy taken out with the insurance companies in relation to each Real Estate Asset and each Mortgage Loan or (ii) any possible "umbrella" insurance policy in relation to the Real Estate Assets which have lost their previous relevant insurance coverage.

"**Intercreditor Agreement**" means the intercreditor agreement entered on 18 June 2010 between, *inter alios*, the Guarantor and the Other Guarantor Creditors, as amended from time to time.

"**Interest Amount**" means, in relation to any Series or Tranche of Covered Bonds and an Interest Period, the amount of interest payable in respect of that Series or Tranche for that Interest Period.

"**Interest Available Funds**" means in respect of any Guarantor Payment Date, the aggregate of:

(i) any interest amounts collected by the Servicer in respect of the Cover Pool and credited into the Main Programme Account during the immediately preceding Collection Period;

(ii) all recoveries in the nature of interest received by the Servicer and credited to the Main Programme Account during the immediately preceding Collection Period;

(iii) all amounts of interest accrued (net of any withholding or expenses, if due) and paid on the Programme Accounts during the immediately preceding Collection Period;

(iv) any amounts standing to the credit of the Reserve Account in excess of the Required Reserve Amount, and following the service of a Guarantee

Enforcement Notice, on the Guarantor, any amounts standing to the credit of the Reserve Account;

(v) any interest amounts standing to the credit of the Programme Accounts;

(vi) all interest amounts received from the Eligible Investments;

(vii) subject to item (ix) below, any amounts received under the Asset Swap Agreement and the Covered Bond Swap Agreement,

provided that, prior to the occurrence of a Guarantor Event of Default, any such amounts received on or after such Guarantor Payment Date (included) but prior to the next following Guarantor Payment Date (excluded) will be applied, together with any provision for such payments made on any preceding Guarantor Calculation Date, (i) to make payments in respect of interest due and payable, *pro rata* and *pari passu* in respect of each relevant Covered Bond Swap Agreement or, as the case may be, (ii) to make payments in respect of interest due on the Covered Bonds under the Guarantee, *pari passu* and *pro rata* in respect of each relevant Series or Tranche of Covered Bonds, or (iii) to make provision for the payment of such relevant proportion of such amounts to be paid on any other day up to the immediately following Guarantor Payment Date, as the Guarantor Calculation Agent may reasonably determine, or otherwise;

(viii) subject to item (ix) below, any amounts received under the Covered Bond Swap Agreements other than any Swap Collateral Excluded Amounts;

(ix) any swap termination payments received from a Swap Provider under any Swap Agreement;

provided that, prior to the occurrence of a Guarantor Event of Default, such amounts will be, to the extent permitted by the relevant Swap Agreement, net of any cost necessary to replace the swap provider and find an eligible swap counterparty to enter into a replacement swap agreement;

(x) all interest amounts received from the Principal Seller (or any Additional Seller, if any) by the Guarantor pursuant to the Master Assets Purchase Agreement during the immediately preceding Collection Period;

(xi) any amounts paid as Interest Shortfall Amount out of item (First) of the Pre-Issuer Default Principal Priority of Payments; and

(xii) any amounts (other than the amounts already allocated under other items of the Guarantor Available Funds) received by the Guarantor from any party to the Programme Documents during the immediately preceding Collection Period.

"**Interest Commencement Date**" means the Issue Date of the relevant Series or Tranche of Covered Bonds or such other date as may be specified as the Interest Commencement Date in the relevant Final Terms.

"**Interest Coverage Test**" has the meaning as indicated pursuant to clause 2.4 of the Cover Pool Management Agreement.

"**Interest Determination Date**" has the meaning given in the relevant Final Terms.

"**Interest Instalment**" means the interest component of each Instalment.

"**Interest Payment Date**" means the First Interest Payment Date and any date or dates specified as such in, or determined in accordance with the provisions of, the relevant Final Terms and, if a Business Day Convention is specified in the relevant Final Terms:

(i) as the same may be adjusted in accordance with the relevant Business Day Convention; or

(ii) if the Business Day Convention is the FRN Convention, Floating Rate Convention or Eurodollar Convention and an interval of a number of calendar months is specified in the relevant Final Terms as being the Specified Period, each of such dates as may occur in accordance with the FRN Convention, Floating Rate Convention or Eurodollar Convention at such Specified Period of calendar months following the Interest Commencement Date (in the case of the first Interest Payment Date) or the previous Interest Payment Date (in any other case).

"**Interest Period**" means each period beginning on (and including) the Interest Commencement Date or any Interest Payment Date and ending on (but excluding) the next Interest Payment Date.

"**Interest Shortfall Amount**" means, on any Guarantor Payment Date, an amount equal to the difference, if positive, between (a) the aggregate amounts payable (but for the operation of clause 13 (*Enforcement of Security, Non Petition and Limited Recourse*) of the Intercreditor Agreement) under items First to Fifth of the Pre-Issuer Default Interest Priority of Payments; and (b) the Interest Available Funds (net of such Interest Shortfall Amount) on such Guarantor Payment Date.

"**ISDA Definitions**" has the meaning given in the relevant Final Terms.

"**ISDA Determination**" has the meaning given in the relevant Final Terms.

"**Issue Date**" means each date on which a Series or Tranche of Covered Bonds is issued.

"**Issuer**" means BMPS.

"**Issuer Event of Default**" has the meaning given to it in the Terms and Conditions of the Covered Bonds.

"**Issuer Default Notice**" means the notice to be served by the Representative of the Bondholders to upon occurrence of certain Issuer Event of Default as better specified in Condition 12.2 (*Issuer Event of Default*).

"**Istruzioni di Vigilanza**" means the regulations for banks issued by the Bank of Italy on 21 April 1999 with Circular No. 229, as subsequently amended and supplemented.

"**Istruzioni di Vigilanza per gli Intermediari Finanziari**" means the regulations for financial intermediaries issued by the Bank of Italy on 5 August 1996 with circular number 216, as subsequently amended and supplemented.

"**Italian Account Bank**" means BMPS in its capacity as Italian account bank pursuant to the Cash Allocation, Management and Payments Agreement.

"**Italian Account Bank Report**" means the report produced by the Italian Account Bank pursuant to the Cash Allocation, Management and Payments Agreement.

"**Italian Account**" means each of the Italian Collection Account, the Italian Securities Collection Account, the Payments Account, the Expenses Account and the Eligible Investments Securities Account, and "Italian Accounts" means all of them.

"**Italian Back-Up Account Bank**" means The Bank of New York Mellon (Luxembourg) S.A., Italian Branch or any other entity appointed to act as such pursuant to the Cash Allocation, Management and Payments Agreement.

"**Italian Collection Account**" means any of the account denominated in Euro opened in the name of the Guarantor and held by the Italian Account Bank for the deposit of any amount of the Collections of the Portfolios number 000008417530 (IBAN: IT 27 S 01030 14200 000008417530) and any other account which may be opened by the Guarantor if a bank part of the Montepaschi Group will accede the Programme in its capacity as Additional Seller and Additional Servicer, for the deposit of the collections of the Portfolios transferred by such bank, in its capacity as Additional Seller, to the Guarantor, or any other substitutive account which may be opened by the Guarantor pursuant to the Cash Allocation, Management and Payments Agreement.

"**Italian Securities Collection Account**" means any of the securities account opened in the name of the Guarantor and held by the Italian Account Bank for the deposit of the Asset Backed Securities number 184175,79 and any other account which may be opened by the Guarantor if a bank part of the Montepaschi Group will accede the Programme in its capacity as Additional Seller and Additional Servicer, for the deposit of the Asset Backed Securities transferred by such bank, in its capacity as Additional Seller, to the Guarantor, or any other substitutive account which may be opened by the Guarantor pursuant to the Cash Allocation, Management and Payments Agreement.

"**Joint-Arrangers**" means, collectively, Morgan Stanley & Co. International plc BMPS, and NatWest Markets Plc.

"**Joint Regulation**" means the joint regulation of CONSOB and the Bank of Italy dated 13 August 2018 and published in the Official Gazette No. 201 of 30 August 2018, as subsequently amended and supplemented from time to time.

"**Law 130**" means Italian Law No. 130 of 30 April 1999 as the same may be amended, modified or supplemented from time to time.

"**Loan Interest**" means any of the Base Interest or the Corresponding Interest, as calculated in the Subordinated Loan Agreement.

"**Loan Interest Period**" means, in relation to any Term Loan: (i) the relevant First Loan Interest Period; and thereafter (ii) each period starting on a Guarantor Payment Date (excluded) and ending on the following Guarantor Payment Date (included).

"**Main Programme Account**" means the account denominated in Euro opened in the name of the Guarantor and held by the English Account Bank, number 50456002 (IBAN GB58 PASC 4051 6850 4560 02), or any other substitutive account which may be opened by the Guarantor pursuant to the Cash Allocation, Management and Payments Agreement.

"**Mandate Agreement**" means the mandate agreement entered on 18 June 2010 between the Guarantor and the Representative of the Bondholders.

"**Mandatory Tests**" means the tests provided for under article 3 of Decree No. 310 as calculated pursuant to the Cover Pool Management Agreement.

"**Margin**" has the meaning set out to the term "**Margine**" in the Subordinated Loan Agreement.

"**Master Assets Purchase Agreement**" means the master assets purchase agreement entered on 25 May 2010 between the Guarantor, the Principal Seller and, following accession to the Programme, each Additional Seller, as amended from time to time.

"**Master Definitions Agreement**" means the master definitions agreement entered into on or about 18 June 2010 between the parties of the Programme Documents, as amended from time to time.

"**Master Servicing Agreement**" means the master servicing agreement entered on 25 May 2010 between the Guarantor, the Principal Servicer and, following accession to the Programme, each Additional Servicer, as amended from time to time.

"**Maturity Date**" means each date on which final redemption payments for a Series or Tranche of Covered Bonds become due in accordance with the Final Terms but subject to it being extended to the Extended Maturity Date.

"**Maximum Rate of Interest**" means has the meaning given in the relevant Final Terms.

"**Maximum Redemption Amount**" means has the meaning given in the relevant Final Terms.

"**Meetings**" has the meaning ascribed to such term in the Rules of the Organisation of the Bondholders.

"**Minimum DBRS Rating**":

Highest Rating Assigned to Rated Securities	Minimum Instruction Rating
AAA (sf)	"A"
AA (high) (sf)	"A"
AA (sf)	"A"
AA (low) (sf)	"A"

A (high) (sf)	BBB (high)
A (sf)	BBB
A (low) (sf)	BBB (low)
BBB (high) (sf)	BBB (low)
BBB (sf)	BBB (low)
BBB (low) (sf)	BBB (low)

"**Minimum Rate of Interest**" has the meaning given in the relevant Final Terms.

"**Minimum Redemption Amount**" has the meaning given in the relevant Final Terms.

"**Montepaschi Group**" means, together, the banks and other companies belonging from time to time to the banking group "Gruppo Montepaschi", enrolled with the register of banking groups held by the Bank of Italy pursuant to article 64 of the Consolidated Banking Act.

"**Monte Titoli**" means Monte Titoli S.p.A..

"**Monte Titoli Account Holders**" means any authorised financial intermediary institution entitled to hold accounts on behalf of its customers with Monte Titoli (as *intermediari aderenti*) in accordance with article 30 of Decree No. 213 and includes any depositary banks approved by Clearstream and Euroclear.

"**Monthly Collection Period**" means (a) each period commencing on (and including) a Collection Date and ending on (but excluding) the following Collection Date; and (b) in the case of the first Monthly Collection Period, the period commencing on (and including) the Valuation Date and ending on (and including) the last calendar day of the month immediately preceding the first Guarantor Payment Date.

"**Monthly Servicer's Report**" means, with reference to the Principal Servicer the monthly report prepared by the Principal Servicer and with reference to any Additional Servicer, the monthly report prepared by any Additional Servicer pursuant to the Master Servicing Agreement.

"**Monthly Servicer's Report Date**" means (i) prior to the delivery of a Guarantor Default Notice, the date falling on the 15th calendar day of each month or, if such day is not a Business Day, the immediately preceding Business Day and (b) following the delivery of a Guarantor Default Notice, such date as may be indicated by the Representative of the Bondholders.

"**Moody's**" means Moody's Investors Service Limited.

"**Mortgage**" means the mortgage security interests (*ipoteche*) created on the Real Estate Assets pursuant to Italian law in order to secure claims in respect of the Receivables.

"**Mortgage Loan**" means a Residential Mortgage Loan, the claims in respect of which have been and/or will be transferred by the Seller to the Guarantor pursuant to the Master Assets Purchase Agreement.

"**Mortgage Loan Agreement**" means any residential mortgage loan agreement out of which the Receivables arise.

"**Mortgagor**" means any person, either a borrower or a third party, who has granted a Mortgage in favour of the relevant Seller to secure the payment or repayment of any amounts payable in respect of a Mortgage Loan, and/or his/her successor in interest.

"**Negative Carry Factor**" is a percentage calculated by reference to the weighted average margin of the Covered Bonds and will, in any event, be not less than 0.5 per cent.

"**Net Present Value Test**" has the meaning as indicated pursuant to clause 2.3 of the Cover Pool Management Agreement.

"**New Portfolio**" means any portfolio of Assets (other than the Initial Portfolio) which may be purchased by the Guarantor pursuant to the terms and subject to the conditions of the Master Assets Purchase Agreement.

"**New Portfolio Purchase Price**" means the consideration which the Guarantor shall pay to the relevant Seller for the transfer of each New Portfolio in accordance with the Master Assets Purchase Agreement and equal to the aggregate amount of the Individual Purchase Price of all the relevant Assets included in the relevant New Portfolio.

"**Nominal Value Test**" has the meaning as indicated pursuant to clause 2.2 of the Cover Pool Management Agreement.

"**Non-Performing Asset**" means, collectively, the Defaulted Receivables, the Delinquent Receivables and any Defaulted Asset Backed Securities.

"**Notice**" means any notice delivered under or in connection with any Programme Document.

"**Obligations**" means all the obligations of the Guarantor created by or arising under the Programme Documents.

"**Optional Redemption Amount (Call)**" has the meaning given in the relevant Final Terms.

"**Optional Redemption Amount (Put)**" has the meaning given in the relevant Final Terms.

"**Optional Redemption Date (Call)**" has the meaning given in the relevant Final Terms.

"**Optional Redemption Date (Put)**" has the meaning given in the relevant Final Terms.

"**Organisation of the Bondholders**" means the association of the Bondholders, organised pursuant to the Rules of the Organisation of the Bondholders.

"**Other Guarantor Creditors**" means the Principal Seller and each Additional Seller, if any, the Principal Servicer and each Additional Servicer, if any, the Back-up Servicer, the Principal Subordinated Lender and each Additional Subordinated Lender, if any,

the Guarantor Calculation Agent, the Pre-Issuer Default Test Calculation Agent, the Post-Issuer Default Test Calculation Agent, the Representative of the Bondholders, the Asset Monitor, the Asset Swap Provider, the Covered Bond Swap Providers, the Italian Account Bank, the Back-Up Account Bank, the English Account Bank, the Principal Paying Agent, the Paying Agent(s), the Luxembourg Listing and Paying Agent, the Guarantor Corporate Servicer and the Portfolio Manager (if any).

"**Outstanding Principal Balance**" means any Principal Balance outstanding in respect of any asset included in the Cover Pool.

"**Pass Through Series**" means:

(a) any Series of Covered Bonds in respect of which:

  (i) the Issuer has failed to repay in whole or in part the relevant Final Redemption Amount on the applicable Maturity Date and a Guarantee Enforcement Notice has been served on the Guarantor; and

  (ii) the Guarantor has insufficient moneys available under the relevant Priority of Payments to pay the Guaranteed Amounts corresponding to the Final Redemption Amount in respect of such Series of Covered Bonds on the relevant Extension Determination Date;

(b) all Series of Covered Bonds if a Guarantee Enforcement Notice has been delivered (and, in case of a Guarantee Enforcement Notice delivered as result of an Article 74 Event, prior to the delivery of an Article 74 Event Cure Notice) and a breach of the Amortisation Test has occurred.

"**Paying Agent**" means the Principal Paying Agent and each other paying agent appointed from time to time under the terms of the Cash Allocation, Management and Payments Agreement.

"**Payment Business Day**" means a day on which banks in the relevant Place of Payment are open for payment of amounts due in respect of debt securities and for dealings in foreign currencies and any day which is:

(i) if the currency of payment is euro, a TARGET Settlement Day and a day on which dealings in foreign currencies may be carried on in each (if any) Additional Financial Centre; or

(ii) if the currency of payment is not euro, a day on which dealings in foreign currencies may be carried on in the Principal Financial Centre of the currency of payment and in each (if any) Additional Financial Centre.

"**Payments Account**" means the account denominated in Euro that will be opened in the name of the Guarantor and held with the Payments Account Bank or any other substitutive account which may be opened pursuant to the Cash Allocation, Management and Payments Agreement.

"**Payments Report**" means the report to be prepared and delivered by the Guarantor Calculation Agent pursuant to the Cash Allocation, Management and Payments Agreement.

"**Place of Payment**" means, in respect of any Bondholders, the place at which such Bondholder receives payment of interest or principal on the Covered Bonds.

"**Portfolio**" means collectively the Initial Portfolio and any other New Portfolios which has been purchased and which will be purchased by the Guarantor in accordance with the terms of the Master Assets Purchase Agreement.

"**Portfolio Manager**" means the subject appointed as portfolio manager pursuant to the Cover Pool Management Agreement or any other entity acting in such capacity pursuant to the Cover Pool Management Agreement.

"**Post-enforcement Priority of Payments**" means the order of priority pursuant to which the Guarantor Available Funds shall be applied on each Guarantor Payment Date, following the delivery of a Guarantor Default Notice, in accordance with the Intercreditor Agreement.

"**Post-Issuer Default Test Calculation Agent**" means Securitisation Services S.p.A..

"**Post-Issuer Default Test Performance Report**" means, on each Test Calculation Date and Quarterly Test Calculation Date during the period after the service of a Guarantee Enforcement Notice, the relevant report prepared by the Post-Issuer Default Test Calculation Agent setting out the calculations carried out by it with respect of the relevant Tests and specifying whether any of such Tests was not met.

"**Pre-Issuer Default Test Calculation Agent**" means BMPS.

"**Pre-Issuer Default Interest Priority of Payments**" means the order of priority pursuant to which the Interest Available Funds shall be applied on each Guarantor Payment Date, prior to the delivery of a Guarantee Enforcement Notice, in accordance with the Intercreditor Agreement.

"**Pre-Issuer Default Principal Priority of Payments**" means the order of priority pursuant to which the Principal Available Funds shall be applied on each Guarantor Payment Date, prior to the delivery of a Guarantee Enforcement Notice, in accordance with the Intercreditor Agreement.

"**Pre-Issuer Default Test Performance Report**" means, on each Test Calculation Date and Quarterly Test Calculation Date prior to the service of a Guarantee Enforcement Notice, the relevant report prepared by the Post-Issuer Default Test Calculation Agent setting out the calculations carried out by it with respect of the relevant Tests and specifying whether any of such Tests was not met.

"**Premium**" means, on each Guarantor Payment Date, an amount payable by the Guarantor on each Programme Term Loan in accordance with the relevant Priority of Payments and equal to the Guarantor Available Funds as at such date, after all amounts payable in priority thereto have been made in accordance with the relevant Priority of Payments.

"**Principal Amount Outstanding**" means, on any day: (a) in relation to a Covered Bond, the principal amount of that Covered Bond upon issue less the aggregate amount of any principal payments in respect of that Covered Bond which have become due and payable (and been paid) on or prior to that day; and (b) in relation to the Covered Bonds outstanding at any time, the aggregate of the amount in (a) in respect of all Covered Bonds outstanding.

"**Principal Available Funds**" means in respect of any Guarantor Payment Date, the aggregate of:

(i) all principal amounts collected by the Servicer in respect of the Cover Pool and credited to the Main Programme Account of the Guarantor during the immediately preceding Collection Period;

(ii) all other recoveries in respect of principal received by the Principal Servicer (and any Additional Seller, if any) and credited to the Main Programme Account of the Guarantor during the immediately preceding Collection Period;

(iii) all principal amounts received by the Guarantor from the Seller pursuant to the Master Assets Purchase Agreement during the immediately preceding Collection Period;

(iv) the proceeds of any disposal of Assets and any disinvestment of Assets or Eligible Investments;

(v) any amounts granted by the Seller under the Subordinated Loan Agreement and not used to fund the payment of the Purchase Price for any Eligible Assets and/or Top-Up Asset;

(vi) all amounts in respect of principal (if any) received under any Swap Agreements other than any Swap Collateral Excluded Amounts;

(vii) any amounts paid out of item Ninth of the Pre-Issuer Default Interest Priority of Payments; and

(viii) any principal amounts standing to the credit of the Programme Accounts.

"**Principal Balance**" means:

(i) for any Mortgage Loan as at any given date, the aggregate of: (a) the original principal amount advanced to the relevant Debtor and any further amount advanced on or before the given date to the relevant Debtor secured or intended to be secured by the related Security Interest; and (b) any interest, disbursement, legal expense, fee, charge, rent, service charge, premium or payment which has been properly capitalised in accordance with the relevant Mortgage Loan or with the relevant Debtor's consent and added to the amounts secured or intended to be secured by that Mortgage Loan; and (c) any other amount (including, for the avoidance of doubt, Accrued Interest and interest in arrears) which is due or accrued (whether or not due) and which has not been paid by the relevant Debtor and has not been capitalised, as at the end of the Business Day immediately preceding that given date less any repayment or payment of any of the foregoing

made on or before the end of the Business Day immediately preceding that given date;

(ii) for any Asset Backed Security as at any given date, the principal amount outstanding of that Asset Backed Security (plus any accrued but unpaid interest thereon).

"**Principal Instalment**" means the principal component of each Instalment.

"**Principal Financial Centre**" means, in relation to any currency, the principal financial centre for that currency provided, however, that in relation to Euro, it means the principal financial centre of such Member State of the European Communities as is selected (in the case of a payment) by the payee.

"**Principal Paying Agent**" means The Bank of New York Mellon in its capacity as Paying Agent pursuant to the Cash Allocation, Management and Payments Agreement or any other entity acting in such capacity pursuant to the Cash Allocation, Management and Payments Agreement.

"**Principal Seller**" means BMPS.

"**Principal Servicer**" means BMPS.

"**Principal Subordinated Lender**" means BMPS in its capacity as Subordinated Lender pursuant to the relevant Subordinated Loan Agreement.

"**Priority of Payments**" means each of the orders in which the Guarantor Available Funds shall be applied on each Guarantor Payment Date in accordance with the Intercreditor Agreement.

"**Privacy Law**" means Italia Law number 675 of 1996, as subsequently amended and supplemented.

"**Programme**" means the programme for the issuance of each series of Covered Bonds (*Obbligazioni Bancarie Garantite*) by the Issuer in accordance with article 7-*bis* of Law 130.

"**Programme Accounts**" means, collectively, the Italian Accounts and the English Accounts and any other account opened from time to time in connection with the Programme.

"**Programme Agreement**" means the programme agreement entered on 18 June 2010 between, *inter alios*, the Guarantor, the Principal Seller, the Issuer, the Representative of the Bondholders and the Dealers, as amended from time to time.

"**Programme Documents**" means the Master Assets Purchase Agreement, the Master Servicing Agreement, the Warranty and Indemnity Agreement, the Cash Allocation, Management and Payments Agreement, the Cover Pool Management Agreement, the Programme Agreement, the Intercreditor Agreement, each Subordinated Loan Agreement, the Asset Monitor Agreement, the Guarantee, the Corporate Services Agreement, the Swap Agreements, the Mandate Agreement, the English Account Bank

Agreement, the Quotaholders' Agreement, the Prospectus, the Terms and Conditions, the Deed of Pledge, the Master Definitions Agreement, any Final Terms agreed in the context of the issuance of each Series or Tranche of Covered Bonds and any other agreement entered into in connection with the Programme.

"**Programme Limit**" means €20,000,000,000.

"**Programme Term Loan**" means any Term Loan granted under the Subordinated Loan Agreement in respect of which the Base Interest applies pursuant to terms of the relevant Subordinated Loan Agreement.

"**Prospectus**" means the base prospectus prepared in the context of the issuance of the Covered Bonds.

"**Prospectus Directive**" means Directive 2003/71/EC of 4 November 2003, as subsequently amended and supplemented.

"**Prudential Regulations**" means the prudential regulations for banks issued by the Bank of Italy on 27 December 2006 with Circular No. 263, as subsequently amended and supplemented.

"**Public Entity Receivables**" means, pursuant to article 2, sub-paragraph 1, of Decree No. 310, any receivables owned by or receivables which have been benefit of a guarantee eligible for credit risk mitigation granted by public entities.

"**Public Entity Securities**" means pursuant to article 2, sub-paragraph 1, of Decree No. 310, any securities issued by or which have benefit of a guarantee eligible for credit risk mitigation granted by public entities.

"**Purchase Price**" means, as applicable, the consideration for the Initial Portfolio Purchase Price or the consideration for the New Portfolio Purchase Price pursuant to the Master Assets Purchase Agreement.

"**Put Option**" has the meaning given in the relevant Final Terms.

"**Put Option Notice**" means a notice in the form obtainable from the Principal Paying Agent which must be delivered to the Principal Paying Agent by any Bondholder wanting to exercise a right to redeem Covered Bonds at the option of the Bondholders.

"**Put Option Receipt**" means a receipt issued by the Principal Paying Agent to a Bondholder having deposited a Put Option Notice.

"**Quarterly Collection Period**" means (a) prior to the service of a Guarantor Default Notice, each period commencing on (and including) the Collection Dates in December, March, June and September and ending on (but excluding), respectively, the Collection Dates in March, June, September and December; (b) following the service of a Guarantor Default Notice, each period commencing on (and including) the last day of the preceding Quarterly Collection Period and ending on (but excluding) the date falling 10 calendar days prior to the next following quarterly Collection Date.

"**Quarterly Servicer's Report**" with reference to the Principal Servicer the quarterly report prepared by the Principal Servicer and with reference to any Additional Servicer, the quarterly report prepared by any Additional Servicer pursuant to the Master Servicing Agreement.

"**Quarterly Servicer's Report Date**" means (a) prior to the delivery of a Guarantor Default Notice, the Monthly Servicer's Report Date falling in March, June, September and December of each year or, if such day is not a Business Day, the immediately preceding Business Day; and (b) following the delivery of a Guarantor Default Notice, such date as may be indicated by the Representative of the Bondholders.

"**Quarterly Test Calculation Date**" means the Test Calculation Date falling in March, June, September and December, of each year or, if such day is not a Business Day, the immediately preceding Business Day.

"**Quota Capital**" means the quota capital of the Guarantor.

"**Quota Capital Account**" means the account denominated in Euro opened in the name of the Guarantor with Banca Antonveneta, Conegliano, Agenzia 1, IBAN IT 32 I 05040 61621 000001228269 for the deposit of the Quota Capital.

"**Quotaholder**" means BMPS and any other quotaholder of the Guarantor.

"**Quotaholders' Agreement**" means the Quotaholders' agreement entered on 18 June 2010 between, *inter alios*, the Guarantor and the Quotaholders.

"**Rate of Exchange**" has the meaning set out in the relevant Final Terms.

"**Rate of Interest**" means the rate or rates (expressed as a percentage per annum) of interest payable in respect of the Series or Tranche of Covered Bonds specified in the relevant Final Terms or calculated or determined in accordance with the provisions of these Conditions and/or the relevant Final Terms.

"**Rating Agencies**" means Fitch, Moody's and DBRS.

"**Real Estate Assets**" means the real estate properties which have been mortgaged in order to secure the Receivables.

"**Receivables**" means specifically each and every right arising under the Mortgage Loans pursuant to the law and the Mortgage Loan Agreements, including but not limited to:

(i) all rights and claims in respect of the repayment of the Principal Instalments due and not paid at the Valuation Date (excluded);

(ii) all rights and claims in respect of the payment of interest (including the default interest) accruing on the Mortgage Loans, which are due from (but excluding) the Valuation Date;

(iii) the Accrued Interest;

(iv) all rights and claims in respect of each Mortgage and any Collateral Security relating to the relevant Mortgage Loan Agreement;

(v) all rights and claims under and in respect of the Insurance Policies; and

(vi) any privileges and priority rights (*diritti di prelazione*) transferable pursuant to the law, as well as any other right, claim or action (including any legal proceeding for the recovery of suffered damages, the remedy of termination (*risoluzione per inadempimento*) and the declaration of acceleration of the debt (*decadenza dal beneficio del termine*) with respect to the Debtors) and any substantial and procedural action and defence, including the remedy of termination (*risoluzione per inadempimento*) and the declaration of acceleration of the debt (*decadenza dal beneficio del termine*) with respect to the Debtors, inherent in or ancillary to the aforesaid rights and claims;

excluding any expenses for the correspondence and any expenses connected to the ancillary services requested by the relevant Debtor.

"**Recoveries**" means any amounts received or recovered by the Servicer in relation to any Defaulted Receivables and any Delinquent Receivables.

"**Redemption Amount**" means, as appropriate, the Final Redemption Amount, the Early Redemption Amount (Tax), the Optional Redemption Amount (Call), the Optional Redemption Amount (Put), the Early Termination Amount (as any such terms are defined in the Conditions) or such other amount in the nature of a redemption amount as may be specified in, or determined in accordance with the provisions of, the relevant Final Terms.

"**Reference Banks**" (A) with respect to the Covered Bonds, has the meaning ascribed to it in the relevant Final Terms or, if none, four major banks selected by the Principal Paying Agent in the market that is most closely connected with the Reference Rate; and, (B) with respect to the Subordinated Loan Agreement, means four financial institutions of the greatest importance, acting on the interbank market of the member states of the EEA, as selected by the Principal Subordinated Lender and communicated to the Guarantor Calculation Agent.

"**Reference Price**" has the meaning given in the relevant Final Terms.

"**Reference Rate**" has the meaning ascribed to it in the relevant Final Terms.

"**Regular Period**" means:

(i) in the case of Covered Bonds where interest is scheduled to be paid only by means of regular payments, each period from and including the Interest Commencement Date to but excluding the first Interest Payment Date and each successive period from and including one Interest Payment Date to but excluding the next Interest Payment Date;

(ii) in the case of Covered Bonds where, apart from the first Interest Period, interest is scheduled to be paid only by means of regular payments, each period from and including a Regular Date falling in any year to but excluding the next

Regular Date, where "Regular Date" means the day and month (but not the year) on which any Interest Payment Date falls; and

(iii) in the case of Covered Bonds where, apart from one Interest Period other than the first Interest Period, interest is scheduled to be paid only by means of regular payments, each period from and including a Regular Date falling in any year to but excluding the next Regular Date, where "Regular Date" means the day and month (but not the year) on which any Interest Payment Date falls other than the Interest Payment Date falling at the end of the irregular Interest Period.

"**Relevant Clearing System**" means Euroclear and/or Clearstream, Luxembourg and/or any other clearing system (other than Monte Titoli) specified in the relevant Final Terms as a clearing system through which payments under the Covered Bonds may be made.

"**Relevant Financial Centre**" has the meaning given in the relevant Final Terms.

"**Relevant Screen Page**" means the page, section or other part of a particular information service (including, without limitation, Reuters) specified as the Relevant Screen Page in the relevant Final Terms, or such other page, section or other part as may replace it on that information service or such other information service, in each case, as may be nominated by the Person providing or sponsoring the information appearing there for the purpose of displaying rates or prices comparable to the Reference Rate.

"**Relevant Time**" has the meaning given in the relevant Final Terms.

"**Representative of the Bondholders**" means BNY Mellon Corporate Trustee Services Limited or any other entity acting in such capacity pursuant to the Programme Documents.

"**Required Redemption Amount**" means (i) to the extent that no Series of Covered Bonds have become Pass Through Series, the Euro Equivalent of the Principal Amount Outstanding in respect of the Earliest Maturing Covered Bonds, multiplied by (1 + Negative Carry Factor x (days to maturity of the relevant Series or Tranche of Covered Bonds/365)) and thereafter (ii) zero.

"**Required Reserve Amount**" means the aggregate of the amounts calculated by the Guarantor Calculation Agent on each Guarantor Calculation Date, in accordance with the following formula:

- **A plus B**, if BMPS is the Covered Bond Swap Provider under the relevant Covered Bond Swap Agreement, or if no Covered Bond Swap Agreement has been entered into with respect to the relevant Series of Covered Bonds; and

- **A plus C**, if BMPS is not the Covered Bond Swap Provider under the relevant Covered Bond Swap Agreement, where

  "**A**" is the sum of all the amounts to be paid by the Guarantor on the next following Guarantor Payment Date (i) under item First of the Pre-Issuer Default Interest Priority of Payments and (ii) as compensation for the activity of any of

the Principal Servicer or the Additional Servicer under the terms of the Master Servicing Agreement.

"**B**" is the aggregate amount of all interest payable with respect of each Series of Covered Bonds during the six months period following the relevant Guarantor Calculation Date; and

"**C**" the sum of the Floating Amount (as defined in the Swap Agreement related to the relevant Series of Covered Bond) due by the Guarantor during the six months period following the relevant Guarantor Calculation Date.

"**Reserve Account**" means the account denominated in Euro opened in the name of the Guarantor and held by the English Account Bank, number 50456001 (IBAN: GB85 PASC 4051 6850 4560 01) or any other substitutive account which may be opened pursuant to the English Account Bank Agreement.

"**Reserve Amount**" means the funds standing to the credit of the Reserve Account from time to time.

"**Residential Mortgage Loan**" means, pursuant to article 2, sub-paragraph 1, of Decree No. 310, a residential mortgage loan in respect of which the relevant amount outstanding added to the principal amount outstanding of any higher ranking mortgage loans secured by the same property, does not exceed 80 per cent. of the value of the property.

"**Residential Real Estate Assets**" means the Real Estate Assets relating to Residential Mortgage Loans.

"**Retention Amount**" means an amount equal to €50,000.00.

"**Rules of the Organisation of the Bondholders**" means the rules of the organisation of the Bondholders attached as Exhibit 1 to this Conditions, as from time to time modified in accordance with the provisions therein contained and including any agreement or other document expressed to be supplemental thereto.

"**Screen Rate Determination**" has the meaning given in the relevant Final Terms.

"**Securities Act**" means the U.S. Securities Act of 1933, as amended.

"**Security**" means the security created pursuant to the Deed of Pledge.

"**Security Interest**" means:

(i) any mortgage, charge, pledge, lien or other encumbrance securing any obligation of any person;

(ii) any arrangement under which money or claims to money, or the benefit of, a bank or other account may be applied, set off or made subject to a combination of accounts so as to effect discharge of any sum owed or payable to any person; or

(iii) any other type of preferential arrangement (including any title transfer and retention arrangement) having a similar effect.

"**Segregation Event**" has the meaning given to the definition "Segregation Event" pursuant to the Terms and Conditions.

"**Selected Assets**" means the Eligible Assets and Top-Up Assets from time to time sold by the Guarantor in accordance with the provisions of the Cover Pool Management Agreement.

"**Seller**" means the Principal Seller pursuant to the Master Assets Purchase Agreement and each Additional Seller (if any).

"**Series**" or "**Series of Covered Bonds**" means each series of Covered Bonds issued in the context of the Programme.

"**Servicer**" means any of BMPS in its capacity as Principal Servicer pursuant to the Master Servicing Agreement and any Additional Servicer pursuant to the terms and conditions provided therein.

"**Servicer's Report Date**" means any of the Monthly Servicer's Report Date or any of the Quarterly Servicer's Report Date.

"**Servicer's Reports**" means any of the Monthly Servicer's Report and the Quarterly Servicer's Report.

"**Servicer Termination Event**" means any event as indicated in clause 11.1 of the Master Servicing Agreement.

"**Specified Currency**" means the currency as may be agreed from time to time by the Issuer, the relevant Dealer(s), the Principal Paying Agent and the Representative of the Bondholders (as set out in the applicable Final Terms).

"**Specified Denomination**" has the meaning given in the relevant Final Terms.

"**Specified Office(s)**" means, in relation to any Paying Agent, the office currently specified in the Cash Management Payments and Allocation Agreement or as further specified by notice to the Issuer and the other parties to the Cash Management Payments and Allocation Agreement in the manner provided therein or in the relevant Final Terms, as the case may be.

"**Specified Period**" has the meaning set out in the relevant Final Terms.

"**Stock Exchange**" means the regulated market of the Luxembourg Stock Exchange (*Bourse de Luxembourg*).

"**Subordinated Lender**" means any of the Principal Subordinated Lender and any Additional Subordinated Lender(s), if any.

"**Subordinated Loan Agreement**" means each subordinated loan agreement entered between a Subordinated Lender and the Guarantor, as amended from time to time.

"**Subordinated Loan Availability Period**" means the period starting from the date of execution of the Subordinated Loan Agreement (or, in respect of any Additional Seller, the relevant Subordinated Loan Agreement) and ending on the date on which all the Covered Bonds issued in the context of the Programme have been cancelled or redeemed in full pursuant to the relevant Final Terms, in which the Subordinated Lender has the right to grant to the Guarantor, on each Drawdown Date, a Term Loan.

"**Subscription Agreement**" means any subscription agreement entered on or about the Issue Date of each Series or Tranche of Covered Bonds between, *inter alios*, each Dealer and the Guarantor

"**Substitute Servicer**" means the substitute of the Servicer which will take over the servicing activities in the event of a Servicer Termination Event pursuant to clause 12 of the Master Servicing Agreement.

"**Swap Agreements**" means, collectively, the Covered Bond Swap Agreement(s), the Asset Swap Agreement and any other swap agreement which may be entered into by the Guarantor in the context of the Programme.

"**Swap Collateral Excluded Amounts**" means at any time, the amounts of Swap Collateral which may not be applied under the terms of the relevant Swap Agreement at that time in satisfaction of the relevant Swap Provider's obligations to the Guarantor or, as the case may be, the Issuer including Swap Collateral which is to be returned to the relevant Swap Provider from time to time in accordance with the terms of the Swap Agreements and ultimately upon termination of the relevant Swap Agreement.

"**Swap Providers**" means, as applicable, the Asset Swap Provider(s), the Covered Bond Swap Providers and any other entity which may act as swap counterparty to the Guarantor by entering into a Swap Agreement.

"**TARGET2**" means the Trans-European Automated Real-time Gross Settlement Express Transfer payment system which utilises a single shared platform and which was launched on 19 November 2007.

"**TARGET Settlement Day**" means any day on which the TARGET2 is open for the settlement of payments in Euro.

"**Tax**" means any present or future taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by the Republic of Italy or any political sub-division thereof or any authority thereof or therein.

"**Term Loan**" means any term loan in the form of a Programme Term Loan or Fixed Interest Term Loan or Floating Interest Term Loan, made or to be made available to the Guarantor on each Drawdown Date under the Subordinated Loan Agreement or the principal amount outstanding for the time being of that loan.

"**Term Loan Proposal**" means an "*Offerta di Finanziamento Subordinato*" as such term is defined in the relevant Subordinated Loan Agreement.

"**Terms and Conditions**" means the Terms and Conditions of the Covered Bonds.

"**Test Calculation Agent**" means any of the Pre-Issuer Default Test Calculation Agent and the Post-Issuer Default Test Calculation Agent.

"**Test Calculation Date**" means the date on which the calculation of the Tests is performed, being a date falling on or before the Test Performance Report Date, **provided that** following the delivery of a Guarantee Enforcement Notice the first Test Calculation Date will fall 7 Business Days after the delivery of such Guarantee Enforcement Notice.

"**Test Grace Period**" means the period starting on the date on which the breach of any of the Mandatory Tests or of the Asset Coverage Test is notified by the Pre-Issuer Default Test Calculation Agent and ending on the immediately following Test Performance Report Date.

"**Test Performance Report**" means, respectively (i) the Pre-Issuer Default Test Performance Report to be issued by the Pre-Issuer Default Test Calculation Agent and (ii) the Post-Issuer Default Test Performance Report to be issued by the Post-Issuer Default Test Calculation Agent, each setting out the calculations carried out by it with respect to the relevant Tests.

"**Test Performance Report Date**" means the date falling the 22nd calendar day of each month.

"**Test Remedy Period**" means the period starting from the date on which a Breach of Test Notice is delivered and ending on the Test Performance Report Date falling 5 months thereafter.

"**Tests**" means, as appropriate, the Mandatory Tests, the Asset Coverage Test, the Amortisation Test.

"**Top-Up Assets**" means, in accordance with article 2, sub-paragraph 3.2 and 3.3 of Decree No. 310, each of the following assets:

(i) deposits held with banks which have their registered office in the European Economic Area or Switzerland or in a country for which a 0 per cent. risk weight is applicable in accordance with the Bank of Italy's Prudential Regulations for banks - standardised approach; and

(ii) securities issued by the banks indicated in item (i) above, which have a residual maturity not exceeding one year.

"**Total Commitment**" means, in respect of each Subordinated Lender, the commitment specified in the relevant Subordinated Loan Agreement.

"**Tranche**" or "**Tranches of Covered Bonds**" means each tranche of Covered Bonds which may be comprised in a Series of Covered Bonds.

"**Transfer Proposal**" means, in respect to each New Portfolio, the transfer proposal which will be sent by the relevant Seller and addressed to the Guarantor substantially in the form set out in schedule 7 to the Master Assets Purchase Agreement.

"**Treaty**" means the treaty establishing the European Community.

"**Usury Law**" means Italian Law number 108 of 7 March 1996, together with Decree number 349 of 29 December 2000 as converted into Law number 24 of 28 February 2001.

"**Valuation Date**" means, with respect to the Initial Portfolio, the 21 of May 2010 and with respect to any New Portfolios, the date that will be established jointly by the Principal Seller or any Additional Seller and the Guarantor.

"**Warranty and Indemnity Agreement**" means the warranty and indemnity agreement entered on 25 May 2010 between the Principal Seller and the Guarantor, as amended from time to time.

"**Zero Coupon Provisions**" has the meaning set out in Condition 8 (*Zero Coupon Provisions*).

(b) *Interpretation:*

In these Conditions:

(i) any reference to principal shall be deemed to include the Redemption Amount, any additional amounts in respect of principal which may be payable under Condition 11 (*Taxation*), any premium payable in respect of a Series or Tranche of Covered Bonds and any other amount in the nature of principal payable pursuant to these Conditions;

(ii) any reference to interest shall be deemed to include any additional amounts in respect of interest which may be payable under Condition 11 (*Taxation*) and any other amount in the nature of interest payable pursuant to these Conditions;

(iii) if an expression is stated in Condition 2 (a) (*Definitions*) to have the meaning given in the relevant Final Terms, but the relevant Final Terms give no such meaning or specify that such expression is "not applicable" then such expression is not applicable to the relevant Covered Bonds;

(iv) any reference to a Programme Document shall be construed as a reference to such Programme Document, as amended and/or supplemented up to and including the Issue Date of the relevant Covered Bonds;

(v) any reference to a party to a Programme Document (other than the Issuer and the Guarantor) shall, where the context permits, include any Person who, in accordance with the terms of such Programme Document, becomes a party thereto subsequent to the date thereof, whether by appointment as a successor to an existing party or by appointment or otherwise as an additional party to such document and whether in respect of the Programme generally or in respect of a single Series or Tranche only; and

(vi) any reference in any legislation (whether primary legislation or regulations or other subsidiary legislation made pursuant to primary legislation) shall be

construed as a reference to such legislation as the same may have been, or may from time to time be, amended or re-enacted.

3. DENOMINATION, FORM AND TITLE

The Covered Bonds are in the Specified Denomination or Specified Denominations which may include a minimum denomination of €100,000 (or, where the Specified Currency is a currency other than euro, the equivalent amount in such Specified Currency) and higher integral multiples of a smaller amount, all as specified in the relevant Final Terms and save that the minimum denomination of each Covered Bond 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 Covered Bonds are denominated in a currency other than euro, the equivalent amount in such currency). The Covered Bonds will be issued in bearer and dematerialised form or in any other form as set out in the relevant Final Terms. The Covered Bonds issued in bearer and dematerialised form will be held on behalf of their ultimate owners by Monte Titoli for the account of Monte Titoli Account Holders and title thereto will be evidenced by book entries in accordance with the provisions of the Financial Laws Consolidation Act and the Joint Regulation, as amended and supplemented from time to time. The Covered Bonds issued in bearer and dematerialised form will be held by Monte Titoli on behalf of the Bondholders until redemption or cancellation thereof for the account of the relevant Monte Titoli Account Holder. No physical document of title will be issued in respect of the Covered Bonds issued in bearer and dematerialised form. The rights and powers of the Bondholders may only be exercised in accordance with these Conditions and the Rules.

4. STATUS AND GUARANTEE

(a) *Status of the Covered Bonds*: The Covered Bonds constitute direct, unconditional, unsecured and unsubordinated obligations of the Issuer and will rank *pari passu* without preference among themselves and (save for any applicable statutory provisions) at least equally with all other present and future unsecured and unsubordinated obligations of the Issuer from time to time outstanding. In the event of a compulsory winding-up (liquidazione coatta amministrativa) of the Issuer, any funds realised and payable to the Bondholders will be collected by the Guarantor on their behalf.

(b) *Status of the Guarantee*: The payment of Guaranteed Amounts in respect of each Series or Tranche of Covered Bonds when Due for Payment will be unconditionally and irrevocably guaranteed by the Guarantor in the Guarantee. The recourse of the Bondholders to the Guarantor under the Guarantee will be limited to the assets of the Cover Pool. Payments made by the Guarantor under the Guarantee will be made subject to, and in accordance with, the relevant Priority of Payments pursuant to which specified payments will be made to other parties prior to payments to the Bondholders.

5. FIXED RATE PROVISIONS

(a) *Application*: This Condition 5 is applicable to the Covered Bonds only if the Fixed Rate Provisions are specified in the relevant Final Terms as being applicable.

(b) *Accrual of interest*: The Covered Bonds bear interest from the Interest Commencement Date at the Rate of Interest payable in arrears on each Interest Payment Date, subject as provided in Condition 10 (*Payments*). Each Covered Bond will cease to bear interest from the due date for final redemption unless payment of the Redemption Amount is improperly withheld or refused, in which case it will continue to bear interest in accordance with this Condition 5 (both before and after judgment) until whichever is the earlier of (i) the day on which all sums due in respect of such Covered Bond up to that day are received by or on behalf of the relevant Bondholder and (ii) the day which is seven days after the Principal Paying Agent has notified the Bondholders that it has received all sums due in respect of the Covered Bonds up to such seventh day (except to the extent that there is any subsequent default in payment). If payment of the Final Redemption Amount on the Maturity Date is deferred in whole or in part pursuant to Condition 9(b) (*Extension of maturity*), the Floating Rate Provision will apply (as specified in the Final Terms).

(c) *Fixed Coupon Amount*: The amount of interest payable in respect of each Covered Bond for any Interest Period shall be the relevant Fixed Coupon Amount and, if the Covered Bonds are in more than one Specified Denomination, shall be the relevant Fixed Coupon Amount in respect of the relevant Specified Denomination.

(d) *Calculation of interest amount*: The amount of interest payable in respect of each Covered Bond for any period for which a Fixed Coupon Amount is not specified shall be calculated by applying the Rate of Interest to the Calculation Amount, multiplying the product by the relevant Day Count Fraction, rounding the resulting figure to the nearest sub-unit of the Specified Currency (half a sub-unit being rounded upwards) and multiplying such rounded figure by a fraction equal to the Specified Denomination of such Covered Bond divided by the Calculation Amount. For this purpose a "sub-unit" means, in the case of any currency other than euro, the lowest amount of such currency that is available as legal tender in the country of such currency and, in the case of euro, means one cent.

6. FLOATING RATE PROVISIONS

(a) *Application*: This Condition 6 is applicable to the Covered Bonds only if the Floating Rate Provisions are specified in the relevant Final Terms as being applicable.

(b) *Accrual of interest*: The Covered Bonds bear interest from the Interest Commencement Date at the Rate of Interest payable in arrears on each Interest Payment Date, subject as provided in Condition 10 (*Payments*). Each Covered Bond will cease to bear interest from the due date for final redemption unless payment of the Redemption Amount is improperly withheld or refused, in which

case it will continue to bear interest in accordance with this Condition (both before and after judgment) until whichever is the earlier of (i) the day on which all sums due in respect of such Covered Bond up to that day are received by or on behalf of the relevant Bondholder and (ii) the day which is seven days after the Principal Paying Agent has notified the Bondholders that it has received all sums due in respect of the Covered Bonds up to such seventh day (except to the extent that there is any subsequent default in payment).

(c) *Screen Rate Determination*: If Screen Rate Determination is specified in the relevant Final Terms as the manner in which the Rate(s) of Interest is/are to be determined, the Rate of Interest applicable to the Covered Bonds for each Interest Period will be determined by the Principal Paying Agent on the following basis:

(i) if the Reference Rate is a composite quotation or customarily supplied by one entity, the Principal Paying Agent will determine the Reference Rate which appears on the Relevant Screen Page as of the Relevant Time on the relevant Interest Determination Date;

(ii) in any other case, the Principal Paying Agent will determine the arithmetic mean of the Reference Rates which appear on the Relevant Screen Page as of the Relevant Time on the relevant Interest Determination Date;

(iii) if, in the case of (i) above, such rate does not appear on that page or, in the case of (ii) above, fewer than two such rates appear on that page or if, in either case, the Relevant Screen Page is unavailable, the Principal Paying Agent will:

(A) request the principal Relevant Financial Centre office of each of the Reference Banks to provide a quotation of the Reference Rate at approximately the Relevant Time on the Interest Determination Date to prime banks in the Relevant Financial Centre interbank market in an amount that is representative for a single transaction in that market at that time; and

(B) determine the arithmetic mean of such quotations; and

(iv) if fewer than two such quotations are provided as requested, the Principal Paying Agent will determine the arithmetic mean of the rates (being the nearest to the Reference Rate, as determined by the Principal Paying Agent) quoted by major banks in the Principal Financial Centre of the Specified Currency, selected by the Principal Paying Agent, at approximately 11.00 a.m. (local time in the Principal Financial Centre of the Specified Currency) on the first day of the relevant Interest Period for loans in the Specified Currency to leading European banks for a period equal to the relevant Interest Period and in an amount that is representative for a single transaction in that market at that time,

and the Rate of Interest for such Interest Period shall be the sum of the Margin and the rate or (as the case may be) the arithmetic mean so determined;

provided, however, that if the Principal Paying Agent is unable to determine a rate or (as the case may be) an arithmetic mean in accordance with the above provisions in relation to any Interest Period, the Rate of Interest applicable to the Covered Bonds during such Interest Period will be the sum of the Margin and the rate or (as the case may be) the arithmetic mean last determined in relation to the Covered Bonds in respect of a preceding Interest Period.

(d) *ISDA Determination*: If ISDA Determination is specified in the relevant Final Terms as the manner in which the Rate(s) of Interest is/are to be determined, the Rate of Interest applicable to the Covered Bonds for each Interest Period will be the sum of the Margin and the relevant ISDA Rate where "**ISDA Rate**" in relation to any Interest Period means a rate equal to the Floating Rate (as defined in the ISDA Definitions) that would be determined by the Principal Paying Agent under an interest rate swap transaction if the Principal Paying Agent were acting as Principal Paying Agent for that interest rate swap transaction under the terms of an agreement incorporating the ISDA Definitions and under which:

(i) the Floating Rate Option (as defined in the ISDA Definitions) is as specified in the relevant Final Terms;

(ii) the Designated Maturity (as defined in the ISDA Definitions) is a period specified in the relevant Final Terms; and

(iii) the relevant Reset Date (as defined in the ISDA Definitions) is either (A) if the relevant Floating Rate Option (as defined in the ISDA Definitions) is based on the London inter-bank offered rate (LIBOR) for a currency, the first day of that Interest Period or (B) in any other case, as specified in the relevant Final Terms.

(e) *Maximum or Minimum Rate of Interest*: If any Maximum Rate of Interest or Minimum Rate of Interest is specified in the relevant Final Terms, then the Rate of Interest shall in no event be greater than the maximum or be less than the minimum so specified.

(f) *Calculation of Interest Amount*: The Principal Paying Agent will, as soon as practicable after the time at which the Rate of Interest is to be determined in relation to each Interest Period, calculate the Interest Amount payable in respect of each Covered Bond for such Interest Period. The Interest Amount will be calculated by applying the Rate of Interest for such Interest Period to the Calculation Amount, multiplying the product by the relevant Day Count Fraction, rounding the resulting figure to the nearest sub-unit of the Specified Currency (half a sub-unit being rounded upwards) and multiplying such rounded figure by a fraction equal to the Specified Denomination of the relevant Covered Bond divided by the Calculation Amount. For this purpose a "sub-unit" means, in the case of any currency other than euro, the lowest amount of such currency that is available as legal tender in the country of such currency and, in the case of euro, means one cent.

(g) *Publication*: The Principal Paying Agent will cause each Rate of Interest and Interest Amount determined by it, together with the relevant Interest Payment

Date, and any other amount(s) required to be determined by it together with any relevant payment date(s) to be notified to the Paying Agent(s) and each competent authority, stock exchange and/or quotation system (if any) by which the Covered Bonds have then been admitted to listing, trading and/or quotation as soon as practicable after such determination but (in the case of each Rate of Interest, Interest Amount and Interest Payment Date) in any event not later than the first day of the relevant Interest Period. Notice thereof shall also promptly be given to the Bondholders. The Principal Paying Agent will be entitled to recalculate any Interest Amount (on the basis of the foregoing provisions) without notice in the event of an extension or shortening of the relevant Interest Period. If the Calculation Amount is less than the minimum Specified Denomination, the Principal Paying Agent shall not be obliged to publish each Interest Amount but instead may publish only the Calculation Amount and the Interest Amount in respect of a Covered Bond having the minimum Specified Denomination.

(h) *Notifications etc*: All notifications, opinions, determinations, certificates, calculations, quotations and decisions given, expressed, made or obtained for the purposes of this Condition by the Principal Paying Agent will (in the absence of manifest error) be binding on the Issuer, the Guarantor, the Paying Agent(s), the Bondholders and (subject as aforesaid) no liability to any such Person will attach to the Principal Paying Agent in connection with the exercise or non-exercise by it of its powers, duties and discretions for such purposes.

7. BENCHMARK REPLACEMENT

Notwithstanding the provisions in Condition 6 (*Floating Rate Provisions*), if the Issuer determines that the relevant Reference Rate specified in the relevant Final Terms has ceased to be published on the relevant Screen Page, or a Benchmark Disruption Event occurs (even if the rate continues to be published), when any Rate of Interest (or the relevant component part thereof) remains to be determined by such Reference Rate, then the following provisions shall apply:

(a) the Issuer shall use reasonable endeavours to appoint, as soon as reasonably practicable, an Independent Adviser to determine (acting in good faith and in a commercially reasonable manner), no later than 5 Business Days prior to the relevant Interest Determination Date relating to the next succeeding Interest Period (the "**IA Determination Cut-off Date**"), a Successor Rate (as defined below) or, alternatively, if there is no Successor Rate, an Alternative Reference Rate (as defined below) for purposes of determining the Rate of Interest (or the relevant component part thereof) applicable to the Covered Bonds;

(b) if the Issuer is unable to appoint an Independent Adviser, or the Independent Adviser appointed by it fails to determine a Successor Rate or an Alternative Reference Rate prior to the IA Determination Cut-off Date, the Issuer (acting in good faith and in a commercially reasonable manner) may determine a Successor Rate or, if there is no Successor Rate, an Alternative Reference Rate;

(c) if a Successor Rate or, failing which, an Alternative Reference Rate (as applicable) is determined in accordance with the preceding provisions, such

Successor Rate or, failing which, an Alternative Reference Rate (as applicable) shall be the Reference Rate for each of the future Interest Periods (subject to the subsequent operation of, and to adjustment as provided in this Condition 7.); provided, however, that if paragraph (b) applies and the Issuer is unable to or does not determine a Successor Rate or an Alternative Reference Rate prior to the relevant Interest Determination Date, the Rate of Interest applicable to the next succeeding Interest Period shall be equal to the Rate of Interest last determined in relation to the Covered Bonds in respect of the preceding Interest Period (subject to the subsequent operation of, and to adjustment as provided in this Condition 7.); for the avoidance of doubt, the provision in this sub-paragraph shall apply to the relevant Interest Period only and any subsequent Interest Periods are subject to the subsequent operation of, and to adjustment as provided in this Condition 7.);

(d) if the Independent Adviser or the Issuer determines a Successor Rate or, failing which, an Alternative Reference Rate (as applicable) in accordance with the above provisions, the Independent Adviser or the Issuer (as applicable), may also specify changes to these Conditions, including but not limited to the Day Count Fraction, Relevant Screen Page, Business Day Convention, Business Days, Interest Determination Date, and/or the definition of Reference Rate applicable to the Covered Bonds, and the method for determining the fallback rate in relation to the Covered Bonds, in order to follow the prevailing market practice in relation to the Successor Rate or the Alternative Reference Rate (as applicable). If the Independent Adviser (in consultation with the Issuer) or the Issuer (as applicable), determines that an Adjustment Spread (as defined below) is required to be applied to the Successor Rate or the Alternative Reference Rate (as applicable) and determines the quantum of, or a formula or methodology for determining, such Adjustment Spread, then such Adjustment Spread shall be applied to the Successor Rate or the Alternative Reference Rate (as applicable). If the Independent Adviser or the Issuer (as applicable) is unable to determine the quantum of, or a formula or methodology for determining, such Adjustment Spread, then such Successor Rate or Alternative Reference Rate (as applicable) will apply without an Adjustment Spread. For the avoidance of doubt, the Representative of the Bondholders shall, at the direction and expense of the Issuer, authorise such consequential amendments to the Transaction Documents and these Conditions as may be required in order to give effect to this Condition 7.

(e) Bondholders' consent shall not be required in connection with effecting the Successor Rate or Alternative Reference Rate (as applicable) or such other changes, including for the execution of any documents or other steps (if required); and

(f) the Issuer shall promptly, following the determination of any Successor Rate or Alternative Reference Rate (as applicable), give written notice thereof to the Principal Paying Agent, the Representative of the Bondholders and the Bondholders specifying (i) which of the Benchmark Disruption Event occurred, (ii) the effective date(s) for such Successor Rate or Alternative Reference Rate (as applicable) and (iii) any consequential changes made to these Conditions,

provided that a prior written notice has been sent to the Rating Agencies within an appropriate period of time.

For the purposes of this Condition 7:

"**Adjustment Spread**" means a spread (which may be positive or negative) or formula or methodology for calculating a spread, which the Independent Adviser (in consultation with the Issuer) or the Issuer (as applicable), determines is required to be applied to the Successor Rate or the Alternative Reference Rate (as applicable) in order to reduce or eliminate, to the extent reasonably practicable in the circumstances, any economic prejudice or benefit (as applicable) to Bondholders as a result of the replacement of the Reference Rate with the Successor Rate or the Alternative Reference Rate (as applicable) and is the spread, formula or methodology which:

(i) in the case of a Successor Rate, is formally recommended in relation to the replacement of the Reference Rate with the Successor Rate by any Relevant Nominating Body (as defined below); or

(ii) in the case of a Successor Rate for which no such recommendation has been made or in the case of an Alternative Reference Rate, the Independent Adviser (in consultation with the Issuer) or the Issuer (as applicable) determines is recognised or acknowledged as being in customary and prevailing market usage in international debt capital markets transactions which reference the Reference Rate, where such rate has been replaced by the Successor Rate or the Alternative Reference Rate (as applicable); or if no such customary and prevailing market usage can be determined or acknowledged, the Independent Adviser (in consultation with the Issuer) or the Issuer in its discretion (as applicable), determines (acting in good faith and in a commercially reasonable manner) to be appropriate;

"**Alternative Reference Rate**" means the rate that the Independent Adviser or the Issuer (as applicable) determines has replaced the relevant Reference Rate in customary and prevailing market usage in the international debt capital markets for the purposes of determining rates of interest in respect of bonds denominated in the Specified Currency and of a comparable duration to the relevant Interest Period, or, if the Independent Adviser or the Issuer (as applicable) determines that there is no such rate, such other rate as the Independent Adviser or the Issuer (as applicable) determines in its discretion (acting in good faith and in a commercially reasonable manner) is most comparable to the relevant Reference Rate;

"**Benchmark Disruption Event**" means any event which could have a material impact on the Reference Rate, including but not limited to:

(i) a material disruption to the Reference Rate, a material change in the methodology of calculating the Reference Rate or the Reference Rate ceasing to exist or be published, or the administrator of the Reference Rate having used a fallback methodology for calculating the Reference Rate for a period of at least 30 calendar days; or

(ii) the insolvency or cessation of business of the administrator of the Reference Rate (in circumstances where no successor administrator has been appointed); or

(iii) a public statement by the administrator of the Reference Rate that it will cease publishing the Reference Rate permanently or indefinitely (in circumstances where no successor administrator has been appointed that will continue publication of the Reference Rate) with effect from a date no later than 6 months after the proposed effective date of such benchmark replacement; or

(iv) a public statement by the supervisor of the administrator of the Reference Rate that the Reference Rate has been or will be permanently or indefinitely discontinued or there will be a material change in the methodology of calculating the Reference Rate with effect from a date no later than 6 months after the proposed effective date of such benchmark replacement; or

(v) a public statement by the supervisor of the administrator of the Reference Rate that means the Reference Rate will be prohibited from being used or that its use is subject to restrictions or adverse consequences with effect from a date no later than 6 months after the proposed effective date of such benchmark replacement; or

(vi) a change in the generally accepted market practice in the market to refer to a Reference Rate endorsed in a public statement by the prudential regulation authority or any relevant committee or other body established, sponsored or approved by any of the foregoing, despite the continued existence of the Reference Rate; or

(vii) it having become unlawful and/or impossible and/or impracticable for the Principal Paying Agent or the Issuer to calculate any payments due to be made to any Bondholders using the Reference Rate.

"**Independent Adviser**" means an independent financial institution of international repute or other independent financial adviser experienced in the international debt capital markets, in each case appointed by the Issuer at its own expense;

"**Relevant Nominating Body**" means, in respect of a reference rate or mid-swap benchmark rate:

(i) the central bank for the currency to which the Reference Rate relates, or any central bank or other supervisory authority which is responsible for supervising the administrator of the Reference Rate; or

(ii) any working group or committee sponsored by, chaired or co-chaired by or constituted at the request of (a) the central bank for the currency to which the reference rate or mid-swap benchmark rate relates, (b) any central bank or other supervisory authority which is responsible for supervising the administrator of the reference rate or mid-swap benchmark rate, (c) a group of the aforementioned central banks or other supervisory authorities, or (d) the Financial Stability Board or any part thereof; and

"**Successor Rate**" means the rate that the Independent Adviser or the Issuer (as applicable) determines is a successor to or replacement of the Reference Rate which is formally recommended by any Relevant Nominating Body.

8. **ZERO COUPON PROVISIONS**

(a) *Application*: This Condition 8 is applicable to the Covered Bonds only if the Zero Coupon Provisions are specified in the relevant Final Terms as being applicable.

(b) *Late payment on Zero Coupon Covered Bonds*: If the Redemption Amount payable in respect of any Zero Coupon Covered Bond is improperly withheld or refused, the Redemption Amount shall thereafter be an amount equal to the sum of:

(i) the Reference Price; and

(ii) the product of the Accrual Yield (compounded annually) being applied to the Reference Price on the basis of the relevant Day Count Fraction from (and including) the Issue Date to (but excluding) whichever is the earlier of (i) the day on which all sums due in respect of such Covered Bond up to that day are received by or on behalf of the relevant Bondholder and (ii) the day which is seven days after the Principal Paying Agent has notified the Bondholders that it has received all sums due in respect of the Covered Bonds up to such seventh day (except to the extent that there is any subsequent default in payment).

9. **REDEMPTION AND PURCHASE**

(a) *Scheduled redemption*: Unless previously redeemed or cancelled, the Covered Bonds will be redeemed at their Final Redemption Amount on the Maturity Date, subject as provided in Condition 9(b) (*Extension of maturity*) and Condition 10 (*Payments*).

(b) *Extension of maturity*: Without prejudice to Condition 12 (*Segregation Event and Events of Default*), the Guarantor's obligations under the Guarantee to pay the Guaranteed Amounts of the relevant Series of Covered Bonds on their Maturity Date may be deferred pursuant to the Conditions until the Extended Maturity Date. Such deferral will occur automatically:

(i) in respect of a Series of Covered Bonds (each such Series, a Pass Through Series) if (A) a Guarantee Enforcement Notice has been served on the Issuer and the Guarantor as a result of the Issuer having failed to pay, in whole or in part, the Guaranteed Amounts on the Maturity Date for such Series of Covered Bonds and, on the relevant Extension Determination Date, the Guarantor has insufficient funds to pay, in accordance with the Guarantee Priority of Payments, the Guaranteed Amounts in respect of such Series of Covered Bonds, or (B) a Guarantee Enforcement Notice has been served on the Issuer and the Guarantor following the occurrence of an Issuer Event of Default (other than the Issuer Event of Default referred to in paragraph (A) above) and, on the

Maturity Date for such Series of Covered Bonds, the Guarantor has insufficient funds to pay, in accordance with the Guarantee Priority of Payments, the Guaranteed Amounts in respect of such Series of Covered Bonds; and

(ii) in respect of all Series of Covered Bonds, which all become Pass Through Series, if, on any Test Calculation Date following the service of a Guarantee Enforcement Notice (and, in case of a Guarantee Enforcement Notice delivered as a result of an Article 74 Event, prior to the service of an Article 74 Event Cure Notice), the Calculation Agent notifies, through the Test Performance Report, the Issuer, the Sellers, any Additional Seller and the Guarantor that the Amortisation Test is not met.

The Issuer shall confirm to the Principal Paying Agent as soon as reasonably practicable and in any event at least four Business Days prior to the Maturity Date as to whether payment will or will not be made in full of the Final Redemption Amount in respect of the Covered Bonds on that Maturity Date. Any failure by the Issuer to notify the Principal Paying Agent shall not affect the validity or effectiveness of the extension.

The Guarantor shall notify the relevant holders of the Covered Bonds (in accordance with Condition 18 (*Notices*)), any relevant Swap Provider(s), the Rating Agencies, the Representative of the Bondholders and the Principal Paying Agent immediately after the Extension Determination Date or the Maturity Date (as the case may be) of any inability of the Guarantor to pay in full the Guaranteed Amounts corresponding to the Final Redemption Amount in respect of the Covered Bonds pursuant to the Guarantee. Any failure by the Guarantor to notify such parties shall not affect the validity or effectiveness of the extension nor give rise to any rights in any such party.

In the circumstances outlined above, the Guarantor shall on the Extension Determination Date or the Maturity Date (as the case may be), pursuant to the Guarantee, apply the moneys (if any) available (after paying or providing for payment of higher ranking or *pari passu* amounts in accordance with the relevant Priority of Payments) *pro rata* as payment of an amount equal to the Final Redemption Amount in respect of the Covered Bonds which become due and payable and shall pay Guaranteed Amounts constituting interest in respect of each such Covered Bond on such date. The obligation of the Guarantor to pay any amounts in respect of the balance of the Final Redemption Amount not so paid shall be deferred as described above.

Interest will continue to accrue on any unpaid amount during such extended period and be payable on each Guarantor Payment Date up to (and including) the Extended Maturity Date.

(c) *Redemption for tax reasons*: The Covered Bonds may be redeemed at the option of the Issuer in whole, but not in part:

(i) at any time (if the Floating Rate Provisions are specified in the relevant Final Terms as being applicable); or

(ii) on any Interest Payment Date (if the Floating Rate Provisions are specified in the relevant Final Terms as being applicable),

(iii) on giving not less than 30 nor more than 60 days' notice to the Bondholders (which notice shall be irrevocable), at their Early Termination Amount (Tax), together with interest accrued (if any) to the date fixed for redemption, if:

(A) the Issuer has or will become obliged to pay additional amounts as provided or referred to in Condition 11 (*Taxation*) as a result of any change in, or amendment to, the laws or regulations of Italy or any political subdivision or any authority thereof or therein having power to tax, or any change in the application or official interpretation of such laws or regulations (including a holding by a court of competent jurisdiction), which change or amendment becomes effective on or after the date of issue of the first Series of the Covered Bonds; and

(B) such obligation cannot be avoided by the Issuer taking reasonable measures available to it,

provided, however, that no such notice of redemption shall be given earlier than:

(C) where the Covered Bonds may be redeemed at any time, 90 days prior to the earliest date on which the Issuer would be obliged to pay such additional amounts if a payment in respect of the Covered Bonds were then due; or

(D) where the Covered Bonds may be redeemed only on an Interest Payment Date, 60 days prior to the Interest Payment Date occurring immediately before the earliest date on which the Issuer would be obliged to pay such additional amounts if a payment in respect of the Covered Bonds were then due.

Prior to the publication of any notice of redemption pursuant to this paragraph, the Issuer shall deliver to the Principal Paying Agent (A) 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 (B) 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. Upon the expiry of any such notice as is referred to in this Condition 9(c) (*Redemption for tax reason*), the Issuer shall be bound to redeem the Covered Bonds in accordance with this Condition 9(c) (*Redemption for tax reason*).

(d) *Redemption at the option of the Issuer*: If the Call Option is specified in the relevant Final Terms as being applicable, the Covered Bonds may be redeemed at the option of the Issuer in whole or, if so specified in the relevant Final Terms,

in part on any Optional Redemption Date (Call) at the relevant Optional Redemption Amount (Call) on the Issuer's giving not less than 15 nor more than 30 days' notice to the Bondholders (which notice shall be irrevocable and shall oblige the Issuer to redeem the Covered Bonds on the relevant Optional Redemption Date (Call) at the Optional Redemption Amount (Call) plus accrued interest (if any) to such date).

(e) *Redemption at the option of Bondholders*: If the Put Option is specified in the relevant Final Terms as being applicable, prior to an Issuer Event of Default, the Issuer shall, at the option of any Bondholder redeem such Covered Bonds held by it on the Optional Redemption Date (Put) specified in the relevant Put Option Notice at the relevant Optional Redemption Amount (Put) together with interest (if any) accrued to such date. In order to exercise the option contained in this Condition 9(e) (*Redemption at the option of the Bondholders*), the Bondholder must, not less than 30 nor more than 45 days before the relevant Optional Redemption Date (Put), deposit with the Principal Paying Agent a duly completed Put Option Notice in the form obtainable from the Principal Paying Agent. The Principal Paying Agent with which a Put Option Notice is so deposited shall deliver a duly completed Put Option Receipt to the deposit in Bondholder. Once deposited in accordance with this Condition 9(e) (*Redemption at the option of the Bondholders*), no duly completed Put Option Notice may be withdrawn; provided, however, that if, prior to the relevant Optional Redemption Date (Put), any Covered Bonds become immediately due and payable or, upon due presentation of any such Covered Bonds on the relevant Optional Redemption Date (Put), payment of the redemption moneys is improperly withheld or refused, the Principal Paying Agent shall mail notification thereof to the Bondholder at such address as may have been given by such Bondholder in the relevant Put Option Notice and shall hold such Covered Bond against surrender of the relevant Put Option Receipt. For so long as any outstanding Covered Bonds are held by the Principal Paying Agent in accordance with this Condition 9(e) (*Redemption at the option of the Bondholders*), the Bondholder and not the Principal Paying Agent shall be deemed to be the holder of such Covered Bonds for all purposes.

(f) *Partial redemption*: If the Covered Bonds are to be redeemed in part only, on any date in accordance with Condition 9(d) (*Redemption at the option of the Issuer*), the Covered Bonds to be redeemed in part shall be redeemed in the principal amount specified by the Issuer and will be so redeemed in accordance with the rules and procedures of Monte Titoli and/or any other Relevant Clearing System (to be reflected in the records of such clearing systems as a pool factor or a reduction in principal amount, at their discretion), subject to compliance with applicable law, the rules of each competent authority, stock exchange and/or quotation system (if any) by which the Covered Bonds have then been admitted to listing, trading and/or quotation. The notice to Bondholders referred to in Condition 9(d) (*Redemption at the option of the Issuer*) shall specify the proportion of the Covered Bonds so to be redeemed. If any Maximum Redemption Amount or Minimum Redemption Amount is specified in the relevant Final Terms, then the Optional Redemption Amount (Call) shall in no event be greater than the maximum or be less than the minimum so specified.

(g) *Early redemption of Zero Coupon Covered Bonds*: Unless otherwise specified in the relevant Final Terms, the Redemption Amount payable on redemption of a Zero Coupon Covered Bonds at any time before the Maturity Date shall be an amount equal to the sum of:

(i) the Reference Price; and

(ii) the product of the Accrual Yield (compounded annually) applied to the Reference Price from (and including) the Issue Date to (but excluding) the date fixed for redemption or (as the case may be) the date upon which the Covered Bonds become due and payable.

Where such calculation is to be made for a period which is not a whole number of years, the calculation in respect of the period of less than a full year shall be made on the basis of such Day Count Fraction as may be specified in the Final Terms for the purposes of this Condition 9(g) (*Early redemption of Zero Coupon Covered Bonds*) or, if none is so specified, a Day Count Fraction of 30E/360.

(h) *Redemption by instalments*: If the Covered Bonds are specified in the relevant Final Terms as being amortising and redeemable in instalments they will be redeemed in such number of instalments, in such amounts ("**Instalment Amounts**") and on such dates as may be specified in or determined in accordance with the relevant Final Terms and upon each partial redemption as provided by this Condition 9(h) (*Redemption and Purchase - Redemption by instalments)* the outstanding principal amount of each such Covered Bonds shall be reduced by the relevant Instalment Amount for all purposes.

(i) *No other redemption*: The Issuer shall not be entitled to redeem the Covered Bonds otherwise than as provided in Conditions 9(a) (*Scheduled redemption*) to (h) (*Redemption by instalments*) above.

(j) *Purchase*: The Issuer or any of its Subsidiaries (other than the Guarantor) may at any time purchase Covered Bonds in the open market or otherwise and at any price. The Guarantor shall not purchase any Covered Bonds at any time.

(k) *Cancellation*: All Covered Bonds so redeemed shall be cancelled (or may be cancelled in case of Covered Bonds repurchase by the Issuer) and thereafter may not be reissued.

10. PAYMENTS

(a) *Payments through clearing systems*: Payment of interest and repayment of principal in respect of the Covered Bonds will be credited, in accordance with the instructions of Monte Titoli, by the Principal Paying Agent on behalf of the Issuer or the Guarantor (as the case may be) to the accounts of those banks and authorised brokers whose accounts with Monte Titoli are credited with those Covered Bonds and thereafter credited by such banks and authorised brokers from such aforementioned accounts to the accounts of the beneficial owners of those Covered Bonds or through the Relevant Clearing Systems to the accounts with the Relevant Clearing Systems of the beneficial owners of those Covered

Bonds, in accordance with the rules and procedures of Monte Titoli and of the Relevant Clearing Systems, as the case may be.

(b) *Payments subject to fiscal laws*: All payments in respect of the Covered Bonds are subject in all cases to any applicable fiscal or other laws and regulations in the place of payment, but without prejudice to the provisions of Condition 11 (*Taxation*). No commissions or expenses shall be charged to Bondholders in respect of such payments.

(c) *Payments on Business Days*: If the due date for payment of any amount in respect of any Covered Bond is not a Payment Business Day in the Place of Payment, the Bondholder shall not be entitled to payment in such place of the amount due until the next succeeding Payment Business Day in such place and shall not be entitled to any further interest or other payment in respect of any such delay.

11. TAXATION

(a) *Gross up by Issuer*: All payments of principal and interest in respect of the Covered Bonds by or on behalf of the Issuer shall be made free and clear of, and without 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 the Republic of Italy or any political subdivision therein or any authority therein or thereof having power to tax, unless the withholding or deduction of such taxes, duties, assessments, or governmental charges is required by law. In that event, the Issuer shall pay such additional amounts as will result in receipt by the Bondholders after such withholding or deduction of such amounts as would have been received by them had no such withholding or deduction been required, except that no such additional amounts shall be payable in respect of any Covered Bond:

(i) in respect of any payment or deduction on account of *imposta sostitutiva* (at the then applicable rate of tax) pursuant to Decree No. 239 with respect to any Covered Bonds and in all circumstances in which the procedures set forth in 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 or omissions of the Issuer or its agents; or

(ii) held by or on behalf of a Bondholder which is liable to such taxes, duties, assessments or governmental charges in respect of such Covered Bonds by reason of its having some connection with the jurisdiction by which such taxes, duties, assessments or charges have been imposed, levied, collected, withheld or assessed other than the mere holding of the Covered Bonds; or

(iii) held by or on behalf of a Bondholder who would have been able to avoid such withholding or deduction by presenting the relevant Covered Bond to another Paying Agent in a Member State of the EU.

(b) *Taxing jurisdiction*: If the Issuer becomes subject at any time to any taxing jurisdiction other than the Republic of Italy, references in these Conditions to the Republic of Italy shall be construed as references to the Republic of Italy and/or such other jurisdiction.

12. SEGREGATION EVENT AND EVENTS OF DEFAULT

12.1 Segregation Event

The occurrence of any of the following events:

(a) a breach of one of the Mandatory Tests on the relevant Quarterly Test Calculation Date and/or

(b) prior to the delivery of a Guarantee Enforcement Notice, a breach of the Asset Coverage Test on the relevant Test Calculation Date,

which the Pre-Issuer Default Test Calculation Agent notifies has not been remedied within the applicable Test Grace Period, constitutes a "**Segregation Event**".

Upon the occurrence of a Segregation Event the Representative of the Bondholders will promptly serve notice and in any case within 5 calendar days (the "**Breach of Tests Notice**") on, *inter alios*, the Issuer and the Guarantor and the Rating Agencies that a Segregation Event has occurred.

In such case:

(i) no *further* Series or Tranche of Covered Bonds may be issued by the Issuer;

(ii) there *shall* be no further payments to the Subordinated Lender under any relevant Term Loan, other than where necessary for the purpose of complying with the 15% Limit in accordance with the provisions of Decree 310 and the Bank of Italy Regulations as better specified in the Cover Pool Management Agreement (and to the extent that no purchase of Eligible Assets is possible to this effect in accordance with the provisions of the Master Assets Purchase Agreement and the Cover Pool Management Agreement and/or in compliance with the limits set out in the Bank of Italy Regulations);

(iii) the *purchase price* for any Eligible Assets or Top-Up Assets to be acquired by the Guarantor shall be paid using the proceeds of a Term Loan or, with respect to Eligible Assets only, to the extent necessary to comply with the 15% Limit in accordance with the provisions of Decree 310 and the Bank of Italy Regulations as better specified in the Cover Pool Management Agreement, the Guarantor Available Funds; and

(iv) *payments* due under the Covered Bonds will continue to be made by the Issuer until a Guarantee Enforcement Notice has been delivered.

If the relevant Mandatory Tests and Asset Coverage Test is/are met within the Test Remedy Period, the Representative of the Bondholders will promptly and in any case within 5 calendar days deliver to the Issuer, the Guarantor, the Asset Monitor and the

Rating Agencies a notice informing such parties that the Breach of Tests Notice then outstanding has been revoked (the "**Breach of Tests Cure Notice**").

12.2 Issuer Event of Default

The occurrence of any of the following events constitutes an "**Issuer Event of Default**":

(a) *Non-payment (also as a result of claw-back)*: the Issuer fails to pay any amount of interest and/or principal due and payable on any Series or Tranche of Covered Bonds and such breach is not remedied within 15 calendar days, in case of amounts of interest, or 7 calendar days (other than in case of non-payment as at the Maturity Date), in case of amounts of principal, as the case may be; or

(b) *Breach of obligation (other than non-payment)*: a material breach by the Issuer of any obligation under the Programme Documents occurs and such breach is not remedied within 30 calendar days after the Representative of the Bondholders has given written notice thereof to the Issuer; or

(c) *Insolvency*: an Insolvency Event occurs with respect to the Issuer; or

(d) *Article 74 Event*: a resolution pursuant to article 74 of the Consolidated Banking Act is issued in respect of the Issuer; or

(e) *Cessation of business*: a Cessation of Business occurs in respect of the Issuer; or

(f) *Breach of Tests*: following the delivery of a Breach of Tests Notice, one of the relevant Mandatory Tests and Asset Coverage Test is/are not met on, or prior to, the Test Calculation Date falling at the end of the relevant Test Remedy Period unless a resolution of the Bondholders is passed resolving to extend that Test Remedy Period.

If any of the events set out in points (a), (c) - to the extent that it is an Insolvency Event consisting in a procedure of *liquidazione coatta amministrativa* of the Issuer –, (d) or (f) above occurs and is continuing, then the Representative of the Bondholders shall serve to the Issuer and the Guarantor a notice to demand payments under the Guarantee (a "**Guarantee Enforcement Notice**"), specifying in case of the Issuer Event of Default referred to under item (d) above, that the Issuer Event of Default may be temporary and the relevant Guarantee Enforcement Notice may be revoked accordingly.

Upon the service of a Guarantee Enforcement Notice:

(i) no further Series or Tranche of Covered Bonds may be issued by the Issuer;

(ii) there shall be no further payments to the Subordinated Lender under any relevant Term Loan;

(iii) the purchase price for any Eligible Assets or Top-Up Assets to be acquired by the Guarantor shall be paid using the proceeds of a Term Loan;

(iv) *Guarantee*: (a) interest and principal falling due on the Covered Bonds will be payable by the Guarantor at the time and in the manner provided under the Conditions and the Final Terms of the relevant Series or Tranche of Covered Bonds, subject to and in accordance with the terms of the Guarantee and the Guarantee Priority of Payments; then (b) the Guarantor (or the Representative of the Bondholders pursuant to the Intercreditor Agreement) shall be entitled to request from the Issuer an amount up to the Guaranteed Amounts and any sum so received or recovered from the Issuer will be used to make payments in accordance with the Guarantee;

(v) *Pass Through Series*: to the extent that the Guarantor does not have sufficient funds to pay the Final Redemption Amount on a Series of Covered Bonds (also taking into account amounts referred under letter (b) of paragraph (iv) above (if any)), such Series shall become a Pass Through Series in accordance with Condition 8(b).

(vi) *Disposal of Assets*: the Guarantor shall use its best effort to sell the Eligible Assets and/or Top-Up Assets included in the Cover Pool in accordance with the provisions of the Cover Pool Management Agreement,

provided that, in case of the Issuer Event of Default determined by a resolution issued in respect of the Issuer pursuant to article 74 of the Consolidated Banking Act (referred to under item (d) (*Article 74 Event*) above) (the "**Article 74 Event**"), the effects listed in items (i) (*Application of the Segregation Event provisions*), (ii) (*Guarantee*) and (iv) (*Disposal of Assets*) above will only apply for as long as the suspension of payments pursuant to Article 74 of the Consolidated Banking Act will be in force and effect (the "**Suspension Period**"). Accordingly (A) the Guarantor, in accordance with Decree No. 310, shall be responsible for the payments of the amounts due and payable under the Covered Bonds during the Suspension Period and (B) at the end of the Suspension Period, the Issuer shall be again responsible for meeting the payment obligations under the Covered Bonds).

For the avoidance of doubt, (i) in case of delivery of a Guarantee Enforcement Notice further to a non- payment of interest on a Series of Covered Bonds the relevant Series becomes a Pass-Though Series if and only to the extent that, on the relevant Extension Determination Date, the Guarantor does not have sufficient funds to redeem the Final Redemption Amount of such Series and (ii) in case of delivery of a Guarantee Enforcement Notice further to an Insolvency Event of the Issuer - consisting in a procedure of *liquidazione coatta amministrativa* - or further to an Article 74 Event, if the Guarantor does not have sufficient funds pay the Final Redemption Amount due on a Series of Covered Bond on the relevant Maturity Date, such Series becomes a Pass-Though Series on such Maturity Date.

If any of the events set out in points from (b), (c) other than in case of Insolvency Event consisting in a procedure of *liquidazione coatta amministrativa* of the Issuer, or (e) above occurs and is continuing, then the Representative of the Bondholders shall serve a notice to the Issuer, the Guarantor, the Principal Seller and any Additional Seller (if any), the Principal Servicer and any Additional Servicer (if any), the Asset Monitor, the Rating Agencies, the Guarantor Calculation Agent, the Swap Counterparties, the Post-

Issuer Default Test Calculation Agent and the Rating Agencies (an "**Issuer Default Notice**").

Upon the service of an Issuer Default Notice the provisions governing the Segregation Event from item (i) to (iv) shall apply.

12.3 **Guarantor Event of Default**

Following the occurrence of an Issuer Event of Default and delivery of the relevant Guarantee Enforcement Notice (to the extent not revoked), the occurrence of any of the following events constitutes a "**Guarantor Event of Default**":

(a) *Non-payment*: the Guarantor fails to pay any interest and/or principal due and payable under the Guarantee and such breach is not remedied within the next following 7 Business Days; or

(b) *Insolvency*: an Insolvency Event occurs with respect to the Guarantor; or

(c) *Breach of other obligation*: a material breach of any obligation under the Programme Documents by the Guarantor occurs (other than payment obligations referred to in item (a) (*Non-payment*) above) which is not remedied within 30 days after the Representative of the Bondholders has given written notice thereof to the Guarantor.

If any of the events set out in points from (a) to (c) above occurs and is continuing then the Representative of the Bondholders shall serve to the Issuer, the Guarantor, the Principal Seller and any Additional Seller (if any), the Principal Servicer and any Additional Servicer (if any), the Asset Monitor, the Guarantor Calculation Agent, the Principal Paying Agent, the Guarantor Corporate Servicer, the Italian Account Bank, the Italian Back-Up Account Bank, the English Account Bank, the English Back-up Account Bank and the Rating Agencies a Guarantor Default Notice, unless the Representative of the Bondholders, having exercised its discretion, resolves otherwise or a resolution of the Bondholders is passed resolving otherwise.

Upon the delivery of a Guarantor Default Notice, unless a Programme Resolution is passed resolving otherwise:

(i) *Acceleration of Covered Bonds*: the Covered Bonds shall become immediately due and payable at their Early Termination Amount together, if appropriate, with any accrued interest and will rank *pari passu* among themselves in accordance with the Post-enforcement Priority of Payments;

(ii) subject to and in accordance with the terms of the Guarantee, the Representative of the Bondholders, on behalf of the Bondholders, shall have a claim against the Guarantor for an amount equal to the Early Termination Amount, together with accrued interest and any other amount due under the Covered Bonds (other than additional amounts payable under Condition 11(a) (*Gross up by Issuer*)) in accordance with the Priority of Payments;

(iii) *Disposal of Assets*: the Guarantor shall immediately sell all Assets included in the Cover Pool in accordance with the provisions of the Cover Pool Management Agreement; and

(iv) *Enforcement*: the Representative of the Bondholders may, at its discretion and without further notice, subject to adequate satisfaction before doing so, take such steps and/or institute such proceedings against the Issuer or the Guarantor (as the case may be) as it may think fit to enforce such payments, but it shall not be bound to take any such proceedings or steps unless requested or authorised by a resolution of the Bondholders.

12.4 **Amortisation Test and relevant breach**

Starting from the date on which a Guarantee Enforcement Notice is delivered and until the earlier of:

(a) the date on which all Series or Tranche of Covered Bonds issued in the context of the Programme have been cancelled or redeemed in full in accordance with the Terms and Conditions and the relevant Final Terms; and

(b) the date on which a Guarantor Default Notice is delivered,

the Guarantor shall procure that on any Test Calculation Date, the Amortisation Test is met with respect to the Cover Pool, **provided that**, in case the Issuer Event of Default consists of an Article 74 Event, no Article 74 Event Cure Notice has been served.

If a breach of the Amortisation Test occurs:

(i) *Pass Through Series*: any and all Series of Covered Bonds will become immediately Pass Through Series in accordance with Condition 8(b); and

(ii) *Disposal of Assets*: the Guarantor shall use its best effort to sell the Eligible Assets and/or Top-Up Assets included in the Cover Pool in accordance with the provisions of the Cover Pool Management Agreement.

12.5 Determinations, etc: all notifications, opinions, determinations, certificates, calculations, quotations and decisions given, expressed, made or obtained for the purposes of this Condition 12 by the Representative of the Bondholders shall (in the absence of wilful default (*dolo*), gross negligence (*colpa grave*) or manifest error) be binding on the Issuer, the Guarantor and all Bondholders and (in such absence as aforesaid) no liability to the Bondholders, the Issuer or the Guarantor shall attach to the Representative of the Bondholders in connection with the exercise or non-exercise by it of its powers, duties and discretions hereunder.

13. LIMITED RECOURSE AND NON PETITION

13.1 Limited recourse

The obligations of the Guarantor under the Guarantee constitute direct and unconditional, unsubordinated and limited recourse obligations of the Guarantor,

collateralised by the Cover Pool as provided under Law 130, Decree No. 310 and the Bank of Italy Regulations. The recourse of the Bondholders to the Guarantor under the Guarantee will be limited to the assets of the Cover Pool subject to, and in accordance with, the relevant Priority of Payments pursuant to which specified payments will be made to other parties prior to payments to the Bondholders.

13.2 Non petition

Only the Representative of the Bondholders may pursue the remedies available under the general law or under the Programme Documents to obtain payment of the Guaranteed Obligations or enforce the Guarantee and/or the Security and no Bondholder shall be entitled to proceed directly against the Guarantor to obtain payment of the Guaranteed Obligations or to enforce the Guarantee and/or the Security. In particular:

(a) no Bondholder (nor any person on its behalf, except the Representative of the Bondholders) is entitled, otherwise than as permitted by the Programme Documents, to direct the Representative of the Bondholders to enforce the Guarantee and/or Security or take any proceedings against the Guarantor to enforce the Guarantee and/or the Security;

(b) no Bondholder (nor any person on its behalf, except the Representative of the Bondholders) shall have the right to take or join any person in taking any steps against the Guarantor for the purpose of obtaining payment of any amount due from the Guarantor;

(c) until the date falling two years and one day after the date on which all Series and Tranches of Covered Bonds issued in the context of the Programme have been cancelled or redeemed in full in accordance with their Conditions and the relevant final Terms no Bondholder (nor any person on its behalf, except the Representative of the Bondholders) shall initiate or join any person in initiating an Insolvency Event in relation to the Guarantor; and

(d) no Bondholder shall be entitled to take or join in the taking of any corporate action, legal proceedings or other procedure or step which would result in the Priority of Payments not being complied with.

14. PRESCRIPTION

Claims for payment under the Covered Bonds shall become void unless made within ten years (in respect of principal) or five years (in respect of interest) from the due date thereof.

15. REPRESENTATIVE OF THE BONDHOLDERS

(a) *Organisation of the Bondholders*: The Organisation of the Bondholders shall be established upon, and by virtue of, the issue of the first Series of Covered Bonds under the Programme and shall remain in force and in effect until repayment in full or cancellation of all the Covered Bonds of whatever Series or Tranche. Pursuant to the Rules, for as long as any Covered Bonds of any Series or Tranche are outstanding, there shall at all times be a Representative of the

Bondholders. The appointment of the Representative of the Bondholders as legal representative of the Organisation of the Bondholders is made by the Bondholders subject to and in accordance with the Rules.

(b) *Initial appointment*: In the Programme Agreement, the Dealers have appointed the Representative of the Bondholders to perform the activities described in the Mandate Agreement, in the Programme Agreement, in these Conditions (including the Rules), and in the other Programme Documents and the Representative of the Bondholders has accepted such appointment for the period commencing on the Issue Date and ending (subject to early termination of its appointment) on the date on which all of the Covered Bonds of whatever Series and Tranche have been cancelled or redeemed in accordance with their respective terms and conditions.

(c) *Acknowledgment by Bondholders*: Each Bondholder, by reason of holding Covered Bonds:

(i) recognises the Representative of the Bondholders as its representative and (to the fullest extent permitted by law) agrees to be bound by the Programme Documents; and

(ii) acknowledges and accepts that the Dealers shall not be liable in respect of any loss, liability, claim, expenses or damage suffered or incurred by any of the Bondholders as a result of the performance by the Representative of the Bondholders of its duties or the exercise of any of its rights under the Programme Documents.

16. AGENTS

In acting under the Cash Allocation, Management and Payments Agreement and in connection with the Covered Bonds, the Paying Agents act solely as agents of the Issuer and, following service of a Guarantee Enforcement Notice or a Guarantor Default Notice, as agents of the Guarantor and do not assume any obligations towards or relationship of agency or trust for or with any of the Bondholders.

The Principal Paying Agent and its initial Specified Office is set out in these Conditions. Any additional Paying Agents and their Specified Offices are specified in the relevant Final Terms. The Issuer and the Guarantor reserve the right at any time to vary or terminate the appointment of any Paying Agent and to appoint a successor principal paying agent and additional or successor paying agents; **provided, however, that**:

(a) the Issuer and the Guarantor shall at all times maintain a principal paying agent; and

(b) the Issuer and the Guarantor shall at all times maintain a paying agent in an EU member state that will not be obliged to withhold or deduct tax pursuant to European Council Directive 2003/48/EC or any other Directive implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000; and

(c) if and for so long as the Covered Bonds are admitted to listing, trading and/or quotation by any competent authority, stock exchange and/or quotation system

which requires the appointment of a Paying Agent in any particular place, the Issuer and the Guarantor shall maintain a Paying Agent having its specified office in the place required by such competent authority, stock exchange and/or quotation system.

Notice of any change in any of the Paying Agents or in their Specified Offices shall promptly be given to the Bondholders.

17. FURTHER ISSUES

The Issuer may from time to time, without the consent of the Bondholders, create and issue further Covered Bonds, as set out in the relevant Final Terms, having the same terms and conditions as the Covered Bonds in all respects (or in all respects except for the first payment of interest) so as to form a single series with the Covered Bonds.

18. NOTICES

(a) *Notices given through Monte Titoli*: Any notice regarding the Covered Bonds issued in bearer and dematerialised form, as long as the Covered Bonds are held through Monte Titoli, shall be deemed to have been duly given if given through the systems of Monte Titoli.

(b) *Notices in Luxembourg*: As long as the Covered Bonds are listed on the Luxembourg Stock Exchange and the rules of such exchange so require, any notice to Bondholders shall also be published on the website of the Luxembourg Stock Exchange (www.bourse.lu).

(c) *Other publication*: The Representative of the Bondholders shall be at liberty to sanction any other method of giving notice to Bondholders if, in its opinion, such other method is reasonable having regard to market practice then prevailing and to the rules of the competent authority, stock exchange and/or quotation system by which the Covered Bonds are then admitted to listing, trading and/or quotation and **provided that** notice of such other method is given to the holders of the Covered Bonds in such manner as the Representative of the Bondholders shall require.

19. ROUNDING

For the purposes of any calculations referred to in these Conditions (unless otherwise specified in these Conditions or the relevant Final Terms), (a) all percentages resulting from such calculations will be rounded, if necessary, to the nearest one hundred-thousandth of a percentage point (with 0.000005 per cent. being rounded up to 0.00001 per cent.), (b) all United States dollar amounts used in or resulting from such calculations will be rounded to the nearest cent (with one half cent being rounded up), (c) all Japanese Yen amounts used in or resulting from such calculations will be rounded downwards to the next lower whole Japanese Yen amount, and (d) all amounts denominated in any other currency used in or resulting from such calculations will be rounded to the nearest two decimal places in such currency, with 0.005 being rounded upwards.

20. GOVERNING LAW AND JURISDICTION

(a) *Governing law*: The Covered Bonds will be governed by Italian law. These Conditions and the related Programme Documents will be governed by Italian law, except for the Swap Agreements and the English Account Bank Agreement, which will be governed by English law.

(b) *Jurisdiction*: The courts of Milan have exclusive competence for the resolution of any dispute that may arise in relation to the Covered Bonds or their validity, interpretation or performance.

(c) *Relevant legislation*: Anything not expressly provided for in these Conditions will be governed by the provisions of Law 130 and, if applicable, article 58 of the Consolidated Banking Act, the Bank of Italy Regulations and Decree No. 310.

RULES OF THE ORGANISATION OF THE BONDHOLDERS

TITLE I
GENERAL PROVISIONS

1. **GENERAL**

1.1 The Organisation of the Bondholders in respect of all Covered Bonds of whatever Series or Tranche issued under the Programme by Banca Monte dei Paschi di Siena S.p.A. is created concurrently with the issue and subscription of the Covered Bonds of the first Series to be issued and is governed by these Rules of the Organisation of the Bondholders ("**Rules**").

1.2 These Rules shall remain in force and effect until full repayment or cancellation of all the Covered Bonds of whatever Series or Tranche.

1.3 The contents of these Rules are deemed to be an integral part of the Conditions of the Covered Bonds of each Series or Tranche issued by the Issuer.

2. **DEFINITIONS AND INTERPRETATION**

2.1 **Definitions**

In these Rules, the terms below shall have the following meanings:

"**Block Voting Instruction**" means, in relation to a Meeting, a document issued by a Paying Agent:

(a) certifying that specified Covered Bonds are held to the order of a Paying Agent or under its control or have been blocked in an account with a clearing system and will not be released until a the earlier of:

(i) a specified date which falls after the conclusion of the Meeting; and

(ii) the surrender to the Paying Agent which issued the same not less than 48 hours before the time fixed for the Meeting (or, if the meeting has been adjourned, the time fixed for its resumption) of confirmation that the Covered Bonds are Blocked Covered Bonds and notification of the release thereof by such Paying Agent to the Issuer and Representative of the Bondholders;

(b) certifying that the Holder of the relevant Blocked Covered Bonds or a duly authorised person on its behalf has notified the relevant Paying Agent that the votes attributable to such Covered Bonds are to be cast in a particular way on each resolution to be put to the Meeting and that during the period of 48 hours before the time fixed for the Meeting such instructions may not be amended or revoked;

(c) listing the aggregate principal amount of such specified Blocked Covered Bonds, distinguishing between those in respect of which instructions have been given to vote for, and against, each resolution; and

(d) authorising a named individual to vote in accordance with such instructions;

"**Blocked Covered Bonds**" means Covered Bonds which have been blocked in an account with a clearing system or otherwise are held to the order of or under the control of a Paying Agent for the purpose of obtaining from that Paying Agent a Block Voting Instruction or a Voting Certificate on terms that they will not be released until after the conclusion of the Meeting in respect of which the Block Voting Instruction or Voting Certificate is required;

"**Chairman**" means, in relation to any Meeting, the person who takes the chair in accordance with Article 8 (*Chairman of the Meeting*).

"**Event of Default**" means an Issuer Event of Default or a Guarantor Event of Default;

"**Extraordinary Resolution**" means a resolution passed at a Meeting, duly convened and held in accordance with the provisions contained in these Rules by a majority of not less than three quarters of the votes cast;

"**Fitch**" means Fitch Ratings Ltd;

"**Holder**" or "**holder**" means in respect of Covered Bonds, the ultimate owner of such Covered Bonds;

"**Liabilities**": means all costs, charges, damages, expenses, liabilities and losses;

"**Meeting**" means a meeting of Bondholders (whether originally convened or resumed following an adjournment);

"**Monte Titoli Account Holder**" means any authorised financial intermediary institution entitled to hold accounts on behalf of its customers with Monte Titoli (as *intermediari aderenti*) in accordance with article 30 of Italian Legislative Decree No. 213 and includes any depository banks appointed by the Relevant Clearing System;

"**Moody's**" means Moody's Investors Service Limited;

"**Ordinary Resolution**" means any resolution passed at a Meeting, duly convened and held in accordance with the provisions contained in these Rules by a majority of more than 50 per cent. of the votes cast;

"**Programme Resolution**" means an Extraordinary Resolution passed at a single meeting of the Bondholders of all Series and or Tranches, duly convened and held in accordance with the provisions contained in these Rules (i) to direct the Representative of the Bondholders to take any action pursuant to Condition 12.2 (*Issuer Event of Default*), Condition 12.3 (*Guarantor Event of Default*) or to appoint or remove the Representative of the Bondholders pursuant to Article 26 (*Appointment, Removal and Remuneration*); or (iii) to take any other action stipulated in the Conditions or Programme Documents as requiring a Programme Resolution;

"**Proxy**" means a person appointed to vote under a Voting Certificate as a proxy or a person appointed to vote under a Block Voting Instruction, in each case other than:

(a) any person whose appointment has been revoked and in relation to whom the relevant Paying Agent, or in the case of a proxy appointed under a Voting Certificate, the Issuer has been notified in writing of such revocation by the time which is 48 hours before the time fixed for the relevant Meeting; and

(b) any person appointed to vote at a Meeting which has been adjourned for want of a quorum and who has not been reappointed to vote at the Meeting when it is resumed;

"**Rating Agencies**" means Fitch and Moody's and each of them is a "**Rating Agency**";

"**Resolutions**" means the Ordinary Resolutions, the Extraordinary Resolutions and the Programme Resolutions, collectively;

"**Swap Rate**" means, in relation to a Covered Bond, Series or Tranche of Covered Bonds, the exchange rate specified in any Swap Agreement relating to such Covered Bond, Series or Tranche of Covered Bonds or, if there is not exchange rate specified or if the Swap Agreements have terminated, the applicable spot rate;

"**Transaction Party**" means any person who is a party to a Programme Document;

"**Voter**" means, in relation to a Meeting, the Holder or a Proxy named in a Voting Certificate, the bearer of a Voting Certificate issued by a Paying Agent or a Proxy named in a Block Voting Instruction;

"**Voting Certificate**" means, in relation to any Meeting:

(a) a certificate issued by a Monte Titoli Account Holder in accordance with the regulation issued jointly by the Bank of Italy and CONSOB on 13 August 2018, as amended from time to time; or

(b) a certificate issued by a Paying Agent stating:

  (i) that Blocked Covered Bonds will not be released until the earlier of:

    (A) a specified date which falls after the conclusion of the Meeting; and

    (B) the surrender of such certificate to such Paying Agent; and

  (ii) the bearer of the certificate is entitled to attend and vote at such Meeting in respect of such Blocked Covered Bonds.

"**Written Resolution**" means a resolution in writing signed by or on behalf of one or more persons being or representing at least 75 per cent. of all the Bondholders who at any relevant time are entitled to participate in a Meeting in accordance with the provisions of these Rules, whether contained in one document or several documents in the same form, each signed by or on behalf of one or more of such Bondholders;

"**24 hours**" means a period of 24 hours including all or part of a day on which banks are open for business both in the place where any relevant Meeting is to be held and in each of the places where the Paying Agents have their Specified Offices; and

"**48 hours**" means two consecutive periods of 24 hours.

Unless otherwise provided in these Rules, or unless the context requires otherwise, words and expressions used in these Rules shall have the meanings and the construction ascribed to them in the Conditions to which these Rules are attached.

2.2 **Interpretation**

In these Rules:

2.2.1 any reference herein to an "**Article**" shall, except where expressly provided to the contrary, be a reference to an article of these Rules of the Organisation of the Bondholders;

2.2.2 a "**successor**" of any party shall be construed so as to include an assignee or successor in title of such party and any person who under the laws of the jurisdiction of incorporation or domicile of such party has assumed the rights and obligations of such party under any Programme Document or to which, under such laws, such rights and obligations have been transferred; and

2.2.3 any reference to any Transaction Party shall be construed so as to include its and any subsequent successors and transferees in accordance with their respective interests.

2.3 **Separate Series or Tranches**

Subject to the provisions of the next sentence, the Covered Bonds of each Series or Tranche shall form a separate Series or Tranche of Covered Bonds and accordingly, unless for any purpose the Representative of the Bondholders in its absolute discretion shall otherwise determine, the provisions of this sentence and of Articles 3 (*Purpose of the Organisation*) to 25 (*Meetings and Separate Series or Tranches*) and 28 (*Duties and Powers of the Representative of the Bondholders*) to 36 (*Powers to Act on behalf of the Guarantor*) shall apply mutatis mutandis separately and independently to the Covered Bonds of each Series or Tranche. However, for the purposes of this Article 2.3:

2.3.1 Articles 26 (*Appointment, removal and remuneration)* and 27 *(Resignation of the Representative of the Bondholders*); and

2.3.2 insofar as they relate to a Programme Resolution, Articles 3 (*Purpose of the Organisation) to 24 (Meetings and Separate Series or Tranches*) and 28 (*Duties and Powers of the Representative of the Bondholders*) to 36 (*Powers to Act on behalf of the Guarantor*),

the Covered Bonds shall be deemed to constitute a single Series or Tranche and the provisions of such Articles shall apply to all the Covered Bonds together as if they constituted a single Series or Tranche and, in such Articles, the expressions "Covered Bonds" and "Bondholders" shall be construed accordingly.

3. PURPOSE OF THE ORGANISATION

3.1 Each Bondholder, whatever Series or Tranche of Covered Bonds he holds, is a member of the Organisation of the Bondholders.

3.2 The purpose of the Organisation of the Bondholders is to co-ordinate the exercise of the rights of the Bondholders and, more generally, to take any action necessary or desirable to protect the interest of the Bondholders.

TITLE II
MEETINGS OF THE BONDHOLDERS

4. VOTING CERTIFICATES AND BLOCK VOTING INSTRUCTIONS

4.1 A Bondholder may obtain a Voting Certificate in respect of a Meeting by requesting its Monte Titoli Account Holder to issue a certificate in accordance with the regulation issued jointly by the Bank of Italy and CONSOB on 13 August 2018, as amended from time to time.

4.2 A Bondholder may also obtain a Voting Certificate from a Paying Agent or require a Paying Agent to issue a Block Voting Instruction by arranging for Covered Bonds to be (to the satisfaction of the Paying Agent) held to its order or under its control or blocked in an account in a clearing system (other than Monte Titoli) not later than 48 hours before the time fixed for the relevant Meeting.

4.3 A Voting Certificate or Block Voting Instruction shall be valid until the release of the Blocked Covered Bonds to which it relates.

4.4 So long as a Voting Certificate or Block Voting Instruction is valid, the person named therein as Holder or Proxy (in the case of a Voting Certificate issued by a Monte Titoli Account Holder), the bearer thereof (in the case of a Voting Certificate issued by a Paying Agent), and any Proxy named therein (in the case of a Block Voting Instruction issued by a Paying Agent) shall be deemed to be the Holder of the Covered Bonds to which it relates for all purposes in connection with the Meeting to which such Voting Certificate or Block Voting Instruction relates.

4.5 A Voting Certificate and a Block Voting Instruction cannot be outstanding simultaneously in respect of the same Covered Bonds.

4.6 References to the blocking or release of Covered Bonds shall be construed in accordance with the usual practices (including blocking the relevant account) of any Relevant Clearing System.

5. VALIDITY OF BLOCK VOTING INSTRUCTIONS

A Block Voting Instruction or a Voting Certificate issued by a Monte Titoli Account Holder shall be valid for the purpose of the relevant Meeting only if it is deposited at the Specified Offices of the Principal Paying Agent, or at any other place approved by the Representative of the Bondholders, at least 24 hours before the time fixed for the relevant Meeting. If a Block Voting Instruction or a Voting Certificate is not deposited before such deadline, it shall not be valid. If the Representative of the Bondholders so

requires, a notarised (or otherwise acceptable) copy of each Block Voting Instruction and satisfactory evidence of the identity of each Proxy named in a Block Voting Instruction or of each Holders or Proxy named in a Voting Certificate issued by a Monte Titoli Account Holder shall be produced at the Meeting but the Representative of the Bondholders shall not be obliged to investigate the validity of a Block Voting Instruction or a Voting Certificate or the identity of any Proxy or any holder of the Covered Bonds named in a Voting Certificate or a Block Voting Instruction.

6. CONVENING A MEETING

6.1 Convening a Meeting

The Representative of the Bondholders, the Guarantor or the Issuer may and (in relation to a meeting for the passing of a Programme Resolution) the Issuer shall upon a requisition in writing signed by the holders of not less than five per cent. of the Principal Amount Outstanding of the Covered Bonds for the time being outstanding convene a meeting of the Bondholders and if the Issuer makes default for a period of seven days in convening such a meeting requisitioned by the Bondholders the same may be convened by the Representative of the Bondholders or the requisitionists. The Representative of the Bondholders may convene a single meeting of the holders of Covered Bonds of more than one Series or Tranche if in the opinion of the Representative of the Bondholders there is no conflict between the holders of the Covered Bonds of the relevant Series or Tranche, in which event the provisions of this Schedule shall apply thereto mutatis mutandis.

6.2 Meetings convened by Issuer

Whenever the Issuer is about to convene a Meeting, it shall immediately give notice in writing to the Representative of the Bondholders specifying the proposed day, time and place of the Meeting, and the items to be included in the agenda.

6.3 Time and place of Meetings

Every Meeting will be held on a date and at a time and place selected or approved by the Representative of the Bondholders.

7. NOTICE

7.1 Notice of Meeting

At least 21, or 5 in case of a Meeting convened in order to resolve to extend the Test Remedy Period pursuant to Condition 12.2 (*Issuer Event of Default*), days' notice (exclusive of the day notice is delivered and of the day on which the relevant Meeting is to be held), specifying the day, time and place of the Meeting, must be given to the relevant Bondholders and the Paying Agents, with a copy to the Issuer and the Guarantor, where the Meeting is convened by the Representative of the Bondholders, or with a copy to the Representative of the Bondholders, where the Meeting is convened by the Issuer, subject to Article 6.3.

7.2 **Content of notice**

The notice shall set out the full text of any resolution to be proposed at the Meeting unless the Representative of the Bondholders agrees that the notice shall instead specify the nature of the resolution without including the full text and shall state that Voting Certificates for the purpose of such Meeting may be obtained from a Monte Titoli Account Holder in accordance with the provisions of the regulation issued jointly by the Bank of Italy and CONSOB on 13 August 2018, as amended from time to time and that for the purpose of obtaining Voting Certificates from a Paying Agent or appointing Proxies under a Block Voting Instruction, Covered Bonds must (to the satisfaction of such Paying Agent) be held to the order of or placed under the control of such Paying Agent or blocked in an account with a clearing system not later than 48 hours before the relevant Meeting.

7.3 **Validity notwithstanding lack of notice**

A Meeting is valid notwithstanding that the formalities required by this Article 7 are not complied with if the Holders of the Covered Bonds constituting all the Principal Amount Outstanding of the Covered Bonds, the Holders of which are entitled to attend and vote, are represented at such Meeting and the Issuer and the Representative of the Bondholders are present.

8. **CHAIRMAN OF THE MEETING**

8.1 **Appointment of Chairman**

An individual (who may, but need not be, a Bondholder), nominated by the Representative of the Bondholders may take the chair at any Meeting, but if:

8.1.1 the Representative of the Bondholders fails to make a nomination; or

8.1.2 the individual nominated declines to act or is not present within 15 minutes after the time fixed for the Meeting,

the Meeting shall be chaired by the person elected by the majority of the Voters present, failing which, the Issuer shall appoint a Chairman. The Chairman of an adjourned Meeting need not be the same person as was Chairman at the original Meeting.

8.2 **Duties of Chairman**

The Chairman ascertains that the Meeting has been duly convened and validly constituted, manages the business of the Meeting, monitors the fairness of proceedings, leads and moderates the debate, and determines the mode of voting.

8.3 **Assistance to Chairman**

The Chairman may be assisted by outside experts or technical consultants, specifically invited to assist in any given matter, and may appoint one or more vote-counters, who are not required to be Bondholders.

9. QUORUM

The quorum at any Meeting will be:

9.1.1 in the case of an Ordinary Resolution, two or more persons holding or representing at least 50 per cent. of the Principal Amount Outstanding of the Covered Bonds the holders of which are entitled to attend and vote or, at an adjourned Meeting, two or more persons being or representing Bondholders entitled to attend and vote, whatever the Principal Amount Outstanding of the Covered Bonds so held or represented;

9.1.2 in the case of an Extraordinary Resolution or a Programme Resolution, two or more persons holding or representing at least 50 per cent. of the Principal Amount Outstanding of the Covered Bonds the holders of which are entitled to attend and vote or at an adjourned Meeting, two or more persons being or representing Bondholders entitled to attend and vote, whatever the Principal Amount Outstanding of the Covered Bonds so held or represented;

9.1.3 at any meeting the business of which includes any of the following matters (other than in relation to a Programme Resolution) (each of which shall, subject only to Article 32.4 (*Obligation to act*), only be capable of being effected after having been approved by Extraordinary Resolution) namely:

(a) reduction or cancellation of the amount payable or, where applicable, modification of the method of calculating the amount payable or modification of the date of payment or, where applicable, modification of the method of calculating the date of payment in respect of any principal or interest in respect of the Covered Bonds;

(b) alteration of the currency in which payments under the Covered Bonds are to be made;

(c) alteration of the majority required to pass an Extraordinary Resolution;

(d) any amendment to the Guarantee or the Deed of Pledge (except in a manner determined by the Representative of the Bondholders not to be materially prejudicial to the interests of the Bondholders of any Series or Tranche);

(e) except in accordance with Articles 31 (*Amendments and Modifications*) and 32 (*Waiver*), the sanctioning of any such scheme or proposal to effect the exchange, conversion or substitution of the Covered Bonds for, or the conversion of such Covered Bonds into, shares, bonds or other obligations or securities of the Issuer or the Guarantor or any other person or body corporate, formed or to be formed; and

(f) alteration of this Article 9.1.3;

(each a "**Series or Tranche Reserved Matter**"), the quorum shall be two or more persons being or representing holders of not less two-thirds of the aggregate Principal Amount Outstanding of the Covered Bonds of such Series

or Tranche for the time being outstanding or, at any adjourned meeting, two or more persons being or representing not less than one-third of the aggregate Principal Amount Outstanding of the Covered Bonds of such Series or Tranche for the time being outstanding,

provided that, if in respect of any Covered Bonds the Paying Agent has received evidence that 90 per cent. Covered Bonds are held by a single Holder and the Voting Certificate or Block Voting Instruction so states then a single Voter appointed in relation thereto or being the Holder of the Covered Bonds thereby represented shall be deemed to be two Voters for the purpose of forming a quorum.

10. ADJOURNMENT FOR WANT OF QUORUM

If a quorum is not present for the transaction of any particular business within 15 minutes after the time fixed for any Meeting, then, without prejudice to the transaction of the business (if any) for which a quorum is present:

10.1 if such Meeting was requested by Bondholders, the Meeting shall be dissolved; and

10.2 in any other case, the Meeting (unless the Issuer and the Representative of the Bondholders otherwise agree) shall, subject to paragraphs 10.2.1 and 10.2.2 below, be adjourned to a new date no earlier than 14 days and no later than 42 days after the original date of such Meeting, and to such place as the Chairman determines with the approval of the Representative of the Bondholders **provided that**:

10.2.1 no Meeting may be adjourned more than once for want of a quorum; and

10.2.2 the Meeting shall be dissolved if the Issuer and the Representative of the Bondholders together so decide.

11. ADJOURNED MEETING

Except as provided in Article 10 (*Adjournment for Want of Quorum*), the Chairman may, with the prior consent of any Meeting, and shall if so directed by any Meeting, adjourn such Meeting to another time and place. No business shall be transacted at any adjourned meeting except business which might have been transacted at the Meeting from which the adjournment took place.

12. NOTICE FOLLOWING ADJOURNMENT

12.1 Notice required

Article 7 (*Notice*) shall apply to any Meeting which is to be resumed after adjournment for lack of a quorum except that:

12.1.1 10 days' notice (exclusive of the day on which the notice is delivered and of the day on which the Meeting is to be resumed) shall be sufficient; and

12.1.2 the notice shall specifically set out the quorum requirements which will apply when the Meeting resumes.

12.2 **Notice not required**

It shall not be necessary to give notice of resumption of any Meeting adjourned for reasons other than those described in Article 10 (*Adjournment for Want of Quorum*).

13. PARTICIPATION

The following categories of persons may attend and speak at a Meeting:

13.1 Voters;

13.2 the directors and the auditors of the Issuer and the Guarantor;

13.3 representatives of the Issuer, the Guarantor and the Representative of the Bondholders;

13.4 financial advisers to the Issuer, the Guarantor and the Representative of the Bondholders;

13.5 legal advisers to the Issuer, the Guarantor and the Representative of the Bondholders; and

13.6 any other person authorised by virtue of a resolution of such Meeting or by the Representative of the Bondholders.

14. VOTING BY SHOW OF HANDS

14.1 Every question submitted to a Meeting shall be decided in the first instance by a vote by a show of hands.

14.2 Unless a poll is validly demanded before or at the time that the result is declared, the Chairman's declaration that on a show of hands a resolution has been passed or passed by a particular majority or rejected, or rejected by a particular majority, shall be conclusive without proof of the number of votes cast for, or against, the resolution.

15. VOTING BY POLL

15.1 **Demand for a poll**

A demand for a poll shall be valid if it is made by the Chairman, the Issuer, the Guarantor, the Representative of the Bondholders or one or more Voters whatever the Principal Amount Outstanding of the Covered Bonds held or represented by such Voter(s). A poll may be taken immediately or after such adjournment as is decided by the Chairman but any poll demanded on the election of a Chairman or on any question of adjournment shall be taken immediately. A valid demand for a poll shall not prevent the continuation of the relevant Meeting for any other business. The result of a poll shall be deemed to be the resolution of the Meeting at which the poll was demanded.

15.2 **The Chairman and a poll**

The Chairman sets the conditions for the voting, including for counting and calculating the votes, and may set a time limit by which all votes must be cast. Any vote which is not cast in compliance with the terms specified by the Chairman shall be null and void.

After voting ends, the votes shall be counted and, after the counting, the Chairman shall announce to the Meeting the outcome of the vote.

16. **VOTES**

16.1 **Voting**

Each Voter shall have:

16.1.1 on a show of hands, one vote; and

16.1.2 on a poll every Vote who is so present shall have one vote in respect of each €1,000 or such other amount as the Representative of the Bondholders may in its absolute discretion stipulate (or, in the case of meetings of holders of Covered Bonds denominated in another currency, such amount in such other currency as the Representative of the Bondholders in its absolute discretion may stipulate) in the Principal Amount Outstanding of the Covered Bonds it holds or represents.

16.2 **Block Voting Instruction**

Unless the terms of any Block Voting Instruction or Voting Certificate state otherwise in the case of a Proxy, a Voter shall not be obliged to exercise all the votes to which such Voter is entitled or to cast all the votes he exercises the same way.

16.3 **Voting tie**

In the case of a voting tie, the relevant Resolution shall be deemed to have been rejected.

17. **VOTING BY PROXY**

17.1 **Validity**

Any vote by a Proxy in accordance with the relevant Block Voting Instruction or Voting Certificate appointing a Proxy shall be valid even if such Block Voting Instruction or Voting Certificate or any instruction pursuant to which it has been given had been amended or revoked **provided that** none of the Issuer, the Representative of the Bondholders or the Chairman has been notified in writing of such amendment or revocation at least 24 hours prior to the time set for the relevant Meeting.

17.2 **Adjournment**

Unless revoked, the appointment of a Proxy under a Block Voting Instruction or a Voting Certificate in relation to a Meeting shall remain in force in relation to any resumption of such Meeting following an adjournment save that no such appointment of a Proxy in relation to a meeting originally convened which has been adjourned for want of a quorum shall remain in force in relation to such meeting when it is resumed. Any person appointed to vote at such Meeting must be re-appointed under a Block Voting Instruction or Voting Certificate to vote at the Meeting when it is resumed.

18. RESOLUTIONS

18.1 Ordinary Resolutions

Subject to Article 18.2 (*Extraordinary Resolutions*), a Meeting shall have the following powers exercisable by Ordinary Resolution, to:

18.1.1 grant any authority, order or sanction which, under the provisions of these Rules or of the Conditions, is required to be the subject of an Ordinary Resolution or required to be the subject of a resolution or determined by a Meeting and not required to be the subject of an Extraordinary Resolution; and

18.1.2 to authorise the Representative of the Bondholders or any other person to execute all documents and do all things necessary to give effect to any Ordinary Resolution.

18.2 Extraordinary Resolutions

A Meeting, in addition to any powers assigned to it in the Conditions, shall have power exercisable by Extraordinary Resolution to:

18.2.1 sanction any compromise or arrangement proposed to be made between the Issuer, the Guarantor, the Representative of the Bondholders, the Bondholders or any of them;

18.2.2 approve any modification, abrogation, variation or compromise in respect of (a) the rights of the Representative of the Bondholders, the Issuer, the Guarantor, the Bondholders or any of them, whether such rights arise under the Programme Documents or otherwise, and (b) these Rules, the Conditions or of any Programme Document or any arrangement in respect of the obligations of the Issuer under or in respect of the Covered Bonds, which, in any such case, shall be proposed by the Issuer, the Representative of the Bondholders and/or any other party thereto;

18.2.3 assent to any modification of the provisions of this these Rules or the Programme Documents which shall be proposed by the Issuer, the Guarantor, the Representative of the Bondholders or of any Bondholder;

18.2.4 in accordance with Article 26 (*Appointment, Removal and Remuneration*), appoint and remove the Representative of the Bondholders;

18.2.5 discharge or exonerate, whether retrospectively or otherwise, the Representative of the Bondholders from any liability in relation to any act or omission for which the Representative of the Bondholders has or may become liable pursuant or in relation to these Rules, the Conditions or any other Programme Document;

18.2.6 waive any breach or authorise any proposed breach by the Issuer, the Guarantor or (if relevant) any other Transaction Party of its obligations under or in respect of these Rules, the Covered Bonds or any other Programme Document or any act or omission which might otherwise constitute an Event of Default;

18.2.7 grant any authority, order or sanction which, under the provisions of these Rules or of the Conditions, must be granted by an Extraordinary Resolution;

18.2.8 authorise and ratify the actions of the Representative of the Bondholders in compliance with these Rules, the Intercreditor Agreement and any other Programme Document;

18.2.9 to appoint any persons (whether Bondholders or not) as a committee to represent the interests of the Bondholders and to confer on any such committee any powers which the Bondholders could themselves exercise by Extraordinary Resolution; and

18.2.10 authorise the Representative of the Bondholders or any other person to execute all documents and do all things necessary to give effect to any Extraordinary Resolution.

18.3 Programme Resolutions

A Meeting shall have power exercisable by a Programme Resolution to direct the Representative of the Bondholders to take any action pursuant to Condition 12.2(b) (*Issuer Event of Default – Breach of other obligations*) and Condition 12.3(c) (*Guarantor Event of Default - Breach of other obligations*) or to appoint or remove the Representative of the Bondholders pursuant to Article 26 (*Appointment, Removal and Remuneration*) or to take any other action required by the Conditions or any Programme Document to be taken by Programme Resolution.

18.4 Other Series or Tranches of Covered Bonds

No Ordinary Resolution or Extraordinary Resolution other than a Programme Resolution that is passed by the Holders of one Series of Covered Bonds shall be effective in respect of another Series or Tranche of Covered Bonds unless it is sanctioned by an Ordinary Resolution or Extraordinary Resolution (as the case may be) of the Holders of Covered Bonds then outstanding of that other Series or Tranches.

19. EFFECT OF RESOLUTIONS

19.1 Binding nature

Subject to Article 18.4 (*Other Series or Tranches of Covered Bonds*), any resolution passed at a Meeting of the Bondholders duly convened and held in accordance with these Rules shall be binding upon all Bondholders, whether or not present at such Meeting and or not voting. A Programme Resolution passed at any Meeting of the holders of the Covered Bonds of all Series and Tranches shall be binding on all holders of the Covered Bonds of all Series and Tranches, whether or not present at the meeting.

19.2 Notice of voting results

Notice of the results of every vote on a resolution duly considered by Bondholders shall be published (at the cost of the Issuer) in accordance with the Conditions and given to the Paying Agents (with a copy to the Issuer, the Guarantor and the Representative of the Bondholders within 14 days of the conclusion of each Meeting).

20. CHALLENGE TO RESOLUTIONS

Any absent or dissenting Bondholder has the right to challenge Resolutions which are not passed in compliance with the provisions of these Rules.

21. MINUTES

Minutes shall be made of all resolutions and proceedings of each Meeting. The Minutes shall be signed by the Chairman and shall be *prima facie* evidence of the proceedings therein recorded. Unless and until the contrary is proved, every Meeting in respect of which minutes have been signed by the Chairman shall be regarded as having been duly convened and held and all resolutions passed, or proceedings transacted shall be regarded as having been duly passed and transacted.

22. WRITTEN RESOLUTION

A Written Resolution shall take effect as if it were an Extraordinary Resolution or, in respect of matters required to be determined by Ordinary Resolution, as if it were an Ordinary Resolution.

23. INDIVIDUAL ACTIONS AND REMEDIES

Each Bondholder has accepted and is bound by the provisions of Condition 13 (*Limited Recourse and Non Petition*) and clause 10 (*Limited Recourse*) of the Guarantee, accordingly, if any Bondholder is considering bringing individual actions or using other individual remedies to enforce his/her rights under the Guarantee (hereinafter, a "**Claiming Bondholder**"), then such Claiming Bondholder intending to enforce his/her rights under the Covered Bonds will notify the Representative of the Bondholders of his/her intention. The Representative of the Bondholders shall inform the other Bondholders of such prospective individual actions and remedies of which the Representative of the Bondholders has been informed by the Claiming Bondholder or otherwise and invite them to raise, in writing, any objection that they may have by a specific date not more than 30 days after the date of the Representative of the Bondholders notification and not less than 15 days after such notification. If Bondholders representing 5 per cent. or more of the aggregate Principal Amount Outstanding of the Covered Bonds then outstanding object to such prospective individual actions and remedies, then the Claiming Bondholder will be prevented from taking any individual action or remedy (without prejudice to the fact that after a reasonable period of time, the same matter may be resubmitted to the Representative of the Bondholders pursuant to the terms of this Article).

24. MEETINGS AND SEPARATE SERIES OR TRANCHES

24.1 Choice of Meeting

If and whenever the Issuer shall have issued and have outstanding Covered Bonds of more than one Series or Tranche the foregoing provisions of this Schedule shall have effect subject to the following modifications:

24.1.1 a resolution which in the opinion of the Representative of the Bondholders affects the Covered Bonds of only one Series or Tranche shall be deemed to

have been duly passed if passed at a separate meeting of the holders of the Covered Bonds of that Series or Tranches;

24.1.2 a resolution which in the opinion of the Representative of the Bondholders affects the Covered Bonds of more than one Series or Tranche but does not give rise to a conflict of interest between the holders of Covered Bonds of any of the Series or Tranche so affected shall be deemed to have been duly passed if passed at a single meeting of the holders of the Covered Bonds of all the Series or Tranches so affected;

24.1.3 a resolution which in the opinion of the Representative of the Bondholders affects the Covered Bonds of more than one Series or Tranche and gives or may give rise to a conflict of interest between the holders of the Covered Bonds of one Series or Tranche or group of Series or Tranches so affected and the holders of the Covered Bonds of another Series or Tranche or group of Series or Tranches so affected shall be deemed to have been duly passed only if passed at separate meetings of the holders of the Covered Bonds of each Series or Tranche or group of Series or Tranches so affected;

24.1.4 a Programme Resolution shall be deemed to have been duly passed only if passed at a single meeting of the Bondholders of all Series or Tranches; and

24.1.5 to all such meetings all the preceding provisions of these Rules shall mutatis mutandis apply as though references therein to Covered Bonds and Bondholders were references to the Covered Bonds of the Series or Tranche or group of Series or Tranches in question or to the holders of such Covered Bonds, as the case may be.

24.2 Denominations other than euro

If the Issuer has issued and has outstanding Covered Bonds which are not denominated in euro in the case of any meeting or request in writing or Written Resolution of holders of Covered Bonds of more than one currency (whether in respect of a meeting or any adjourned such meeting or any poll resulting therefrom or any such request or Written Resolution) the Principal Amount Outstanding of such Covered Bonds shall be the equivalent in euro at the relevant Swap Rate. In such circumstances, on any poll each person present shall have one vote for each €1.00 (or such other euro amount as the Representative of the Bondholders may in its absolute discretion stipulate) of the Principal Amount Outstanding of the Covered Bonds (converted as above) which he holds or represents.

25. FURTHER REGULATIONS

Subject to all other provisions contained in these Rules, the Representative of the Bondholders may, without the consent of the Issuer, prescribe such further regulations regarding the holding of Meetings and attendance and voting at them and/or the provisions of a Written Resolution as the Representative of the Bondholders in its sole discretion may decide.

TITLE III
THE REPRESENTATIVE OF THE BONDHOLDERS

26. APPOINTMENT, REMOVAL AND REMUNERATION

26.1 Appointment

The appointment of the Representative of the Bondholders takes place by Programme Resolution in accordance with the provisions of this Article 26, except for the appointment of the first Representative of the Bondholders which will be BNY Mellon Corporate Trustee Services Limited.

26.2 Identity of Representative of the Bondholders

The Representative of the Bondholders shall be:

26.2.1 a bank incorporated in any jurisdiction of the EEA or a bank incorporated in any other jurisdiction acting through an Italian branch; or

26.2.2 a company or financial institution enrolled with the register held by the Bank of Italy pursuant to article 106 of Italian Legislative Decree No. 385 of 1993; or

26.2.3 any other entity which is not prohibited from acting in the capacity of Representative of the Bondholders pursuant to the law.

The directors and auditors of the Issuer and those who fall within the conditions set out in article 2399 of the Italian Civil Code cannot be appointed as Representative of the Bondholders and, if appointed as such, they shall be automatically removed.

26.3 Duration of appointment

Unless the Representative of the Bondholders is removed by Programme Resolution of the Bondholders pursuant to Article 18.3 (*Programme Resolution*) or resigns pursuant to Article 27 (*Resignation of the Representative of the Bondholders*), it shall remain in office until full repayment or cancellation of all the Covered Bonds.

26.4 After termination

In the event of a termination of the appointment of the Representative of the Bondholders for any reason whatsoever, such representative shall remain in office until the substitute Representative of the Bondholders, which shall be an entity specified in Article 26.2 (*Identity of Representative of the Bondholders*), accepts its appointment, and the powers and authority of the Representative of the Bondholders whose appointment has been terminated shall, pending the acceptance of its appointment by the substitute, be limited to those necessary to perform the essential functions required in connection with the Covered Bonds.

26.5 Remuneration

The Issuer, failing which the Guarantor, shall pay to the Representative of the Bondholders an annual fee for its services as Representative of the Bondholders from the Issue Date, as agreed either in the initial agreement(s) for the issue of and

subscription for the Covered Bonds or in a separate fee letter. Such fees shall accrue from day to day and shall be payable in accordance with the priority of payments set out in the Intercreditor Agreement up to (and including) the date when all the Covered Bonds of whatever Series or Tranche shall have been repaid in full or cancelled in accordance with the Conditions.

27. RESIGNATION OF THE REPRESENTATIVE OF THE BONDHOLDERS

The Representative of the Bondholders may resign at any time by giving at least three calendar months' written notice to the Issuer and the Guarantor, without needing to provide any specific reason for the resignation and without being responsible for any costs incurred as a result of such resignation. The resignation of the Representative of the Bondholders shall not become effective until a new Representative of the Bondholders has been appointed in accordance with Article 26.1 (*Appointment*) and such new Representative of the Bondholders has accepted its appointment. **Provided that** if Bondholders fail to select a new Representative of the Bondholders within three months of written notice of resignation delivered by the Representative of the Bondholders, the Representative of the Bondholders may appoint a successor which is a qualifying entity pursuant to Article 26.2 (*Identity of the Representative of the Bondholders*).

28. DUTIES AND POWERS OF THE REPRESENTATIVE OF THE BONDHOLDERS

28.1 Representative of the Bondholders as legal representative

The Representative of the Bondholders is the legal representative of the Organisation of the Bondholders and has the power to exercise the rights conferred on it by the Programme Documents in order to protect the interests of the Bondholders.

28.2 Meetings and resolutions

Unless any Resolution provides to the contrary, the Representative of the Bondholders is responsible for implementing all resolutions of the Bondholders. The Representative of the Bondholders has the right to convene and attend Meetings (together with its adviser) to propose any course of action which it considers from time to time necessary or desirable.

28.3 Delegation

The Representative of the Bondholders may in the exercise of the powers, discretions and authorities vested in it by these Rules and the Programme Documents:

28.3.1 act by responsible officers or a responsible officer for the time being of the Representative of the Bondholders;

28.3.2 whenever it considers it expedient and in the interest of the Bondholders, whether by power of attorney or otherwise, delegate to any person or persons or fluctuating body of persons some, but not all, of the powers, discretions or authorities vested in it as aforesaid.

28.3.3 Any such delegation pursuant to Article 28.3.1 may be made upon such conditions and subject to such regulations (including power to sub-delegate) as the Representative of the Bondholders may think fit in the interest of the Bondholders. The Representative of the Bondholders shall not be bound to supervise the acts or proceedings of such delegate or sub-delegate and shall not in any way or to any extent be responsible for any loss incurred by reason of any misconduct, omission or default on the part of such delegate or sub-delegate, **provided that** the Representative of the Bondholders shall use all reasonable care in the appointment of any such delegate and shall be responsible for the instructions given by it to such delegate. The Representative of the Bondholders shall, as soon as reasonably practicable, give notice to the Issuer and the Guarantor of the appointment of any delegate and any renewal, extension and termination of such appointment, and shall procure that any delegate shall give notice to the Issuer and the Guarantor of the appointment of any sub-delegate as soon as reasonably practicable.

28.4 **Judicial proceedings**

The Representative of the Bondholders is authorised to represent the Organisation of the Bondholders in any judicial proceedings including any Insolvency Event in respect of the Issuer and/or the Guarantor.

28.5 **Consents given by Representative of Bondholders**

Any consent or approval given by the Representative of the Bondholders under these Rules and any other Programme Document may be given on such terms and subject to such conditions (if any) as the Representative of the Bondholders deems appropriate and, notwithstanding anything to the contrary contained in the Rules or in the Programme Documents, such consent or approval may be given retrospectively.

28.6 **Discretions**

Save as expressly otherwise provided herein, the Representative of the Bondholders shall have absolute discretion as to the exercise or non-exercise of any right, power and discretion vested in the Representative of the Bondholders by these Rules or by operation of law.

28.7 **Obtaining instructions**

In connection with matters in respect of which the Representative of the Bondholders is entitled to exercise its discretion hereunder, the Representative of the Bondholders has the right (but not the obligation) to convene a Meeting or Meetings in order to obtain the Bondholders' instructions as to how it should act. Prior to undertaking any action, the Representative of the Bondholders shall be entitled to request that the Bondholders indemnify it and/or provide it with security as specified in Article 29.2 (*Specific Limitations*).

28.8 **Remedy**

The Representative of the Bondholders may determine whether or not a default in the performance by the Issuer or the Guarantor of any obligation under the provisions of

these Rules, the Covered Bonds or any other Programme Documents may be remedied, and if the Representative of the Bondholders certifies that any such default is, in its opinion, not capable of being remedied, such certificate shall be conclusive and binding upon the Issuer, the Bondholders, the other creditors of the Guarantor and any other party to the Programme Documents.

29. EXONERATION OF THE REPRESENTATIVE OF THE BONDHOLDERS

29.1 Limited obligations

The Representative of the Bondholders shall not assume any obligations or responsibilities in addition to those expressly provided herein and in the Programme Documents.

29.2 Specific limitations

Without limiting the generality of the Article 29.1, the Representative of the Bondholders:

29.2.1 shall not be under any obligation to take any steps to ascertain whether an Event of Default, Segregation Event or any other event, condition or act, the occurrence of which would cause a right or remedy to become exercisable by the Representative of the Bondholders hereunder or under any other Programme Document, has occurred and, until the Representative of the Bondholders has actual knowledge or express notice to the contrary, it shall be entitled to assume that no Segregation Event, Event of Default or such other event, condition or act has occurred;

29.2.2 shall not be under any obligation to monitor or supervise the observance and performance by the Issuer or the Guarantor or any other parties of their obligations contained in these Rules, the Programme Documents or the Conditions and, until it shall have actual knowledge or express notice to the contrary, the Representative of the Bondholders shall be entitled to assume that the Issuer or the Guarantor and each other party to the Programme Documents are duly observing and performing all their respective obligations;

29.2.3 except as expressly required in these Rules or any Programme Document, shall not be under any obligation to give notice to any person of its activities in performance of the provisions of these Rules or any other Programme Document;

29.2.4 shall not be responsible for investigating the legality, validity, effectiveness, adequacy, suitability or genuineness of these Rules or of any Programme Document, or of any other document or any obligation or right created or purported to be created hereby or thereby or pursuant hereto or thereto, and (without prejudice to the generality of the foregoing) it shall not have any responsibility for or have any duty to make any investigation in respect of or in any way be liable whatsoever for:

(a) the nature, *status*, creditworthiness or solvency of the Issuer or the Guarantor;

(b) the existence, accuracy or sufficiency of any legal or other opinion, search, report, certificate, valuation or investigation delivered or obtained or required to be delivered or obtained at any time in connection with the Programme;

(c) the suitability, adequacy or sufficiency of any collection procedure operated by the Servicer or compliance therewith;

(d) the failure by the Issuer to obtain or comply with any licence, consent or other authorisation in connection with the purchase or administration of the assets contained in the Cover Pool; and

(e) any accounts, books, records or files maintained by the Issuer, the Guarantor, the Servicer and the Paying Agent or any other person in respect of the Cover Pool or the Covered Bonds;

29.2.5 shall not be responsible for the receipt or application by the Issuer of the proceeds of the issue of the Covered Bonds or the distribution of any of such proceeds to the persons entitled thereto;

29.2.6 shall have no responsibility for procuring or maintaining any rating of the Covered Bonds by any credit or rating agency or any other person;

29.2.7 shall not be responsible for investigating any matter which is the subject of any recital, statement, warranty, representation or covenant by any party other than the Representative of the Bondholders contained herein or in any Programme Document or any certificate, document or agreement relating thereto or for the execution, legality, validity, effectiveness, enforceability or admissibility in evidence thereof;

29.2.8 shall not be liable for any failure, omission or defect in registering or filing or procuring registration or filing of or otherwise protecting or perfecting these Rules or any Programme Document;

29.2.9 shall not be bound or concerned to examine or enquire into or be liable for any defect or failure in the right or title of the Guarantor in relation to the assets contained in the Cover Pool or any part thereof, whether such defect or failure was known to the Representative of the Bondholders or might have been discovered upon examination or enquiry or whether capable of being remedied or not;

29.2.10 shall not be under any obligation to guarantee or procure the repayment of the Assets contained in the Cover Pool or any part thereof;

29.2.11 shall not be responsible for reviewing or investigating any report relating to the Cover Pool or any part thereof provided by any person, with the exception of the Test Performance Report for the purposes of delivery of the notice;

29.2.12 shall not be responsible for or have any liability with respect to any loss or damage arising from the realisation of the Cover Pool or any part thereof;

29.2.13 shall not be responsible (except as expressly provided in the Conditions) for making or verifying any determination or calculation in respect of the Covered Bonds, the Cover Pool or any Programme Document;

29.2.14 shall not be under any obligation to insure the Cover Pool or any part thereof;

29.2.15 shall, when in these Rules or any Programme Document it is required in connection with the exercise of its powers, trusts, authorities or discretions to have regard to the interests of the Bondholders, have regard to the overall interests of the Bondholders of each Series or Tranche as a class of persons and shall not be obliged to have regard to any interests arising from circumstances particular to individual Bondholders whatever their number and, in particular but without limitation, shall not have regard to the consequences of such exercise for individual Bondholders (whatever their number) resulting from their being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular territory or taxing authority;

29.2.16 shall not, if in connection with the exercise of its powers, trusts, authorities or discretions, it is of the opinion that the interest of the holders of the Covered Bonds of any one or more Series or Tranche would be materially prejudiced thereby, exercise such power, trust, authority or discretion without the approval of such Bondholders by Extraordinary Resolution or by a written resolution of such Bondholders of not less than 75 per cent. of the Principal Amount Outstanding of the Covered Bonds of the relevant Series or Tranche then outstanding;

29.2.17 shall, with respect to the powers, trusts, authorities and discretions vested in it by the Programme Documents, except where expressly provided therein, have regard to the interests of both the Bondholders and the other creditors of the Issuer or the Guarantor but if, in the opinion of the Representative of the Bondholders, there is a conflict between their interests the Representative of the Bondholders will have regard solely to the interest of the Bondholders;

29.2.18 may refrain from taking any action or exercising any right, power, authority or discretion vested in it under these Rules or any Programme Document or any other agreement relating to the transactions herein or therein contemplated until it has been indemnified and/or secured to its satisfaction against any and all actions, proceedings, claims and demands which might be brought or made against it and against all Liabilities suffered, incurred or sustained by it as a result. Nothing contained in these Rules or any of the other Programme Documents shall require the Representative of the Bondholders to expend or risk its own funds or otherwise incur any financial liability in the performance of its duties or the exercise of any right, power, authority or discretion hereunder; and

29.2.19 shall not have any liability for any loss, liability, damages claim or expense directly or indirectly suffered or incurred by the Issuer, the Guarantor, any Bondholder, any Other Guarantor Creditor or any other person as a result of (a) the delivery by the Representative of the Bondholders of the certificate of incapability of remedy relating any material default of obligations pursuant to

Condition 12.2 (*Issuer Event of Default*) and Condition 12.3 (*Guarantor Event of Default*) on the basis of an opinion formed by it in good faith; or (b) any determination, any act, matter or thing that will not be materially prejudicial to the interests of the Bondholders as a whole or the interests of the Bondholders of any Series or Tranche.

29.3 **Covered Bonds held by Issuer**

The Representative of the Bondholders may assume without enquiry that no Covered Bonds are, at any given time, held by or for the benefit of the Issuer.

29.4 **Illegality**

No provision of these Rules shall require the Representative of the Bondholders to do anything which may be illegal or contrary to applicable law or regulations or to expend moneys or otherwise take risks in the performance of any of its duties, or in the exercise of any of its powers or discretion. The Representative of the Bondholders may refrain from taking any action which would or might, in its opinion, be contrary to any law of any jurisdiction or any regulation or directive of any agency of any state, or if it has reasonable grounds to believe that it will not be reimbursed for any funds it expends, or that it will not be indemnified against any loss or liability which it may incur as a consequence of such action. The Representative of the Bondholders may do anything which, in its opinion, is necessary to comply with any such law, regulation or directive as aforesaid.

30. **RELIANCE ON INFORMATION**

30.1 **Advice**

The Representative of the Bondholders may act on the advice of a certificate or opinion of, or any written information obtained from, any lawyer, accountant, banker, broker, credit or rating agency or other expert, whether obtained by the Issuer, the Guarantor, the Representative of the Bondholders or otherwise, and shall not be liable for any loss occasioned by so acting. Any such opinion, advice, certificate or information may be sent or obtained by letter, telegram, e-mail or fax transmission and the Representative of the Bondholders shall not be liable for acting on any opinion, advice, certificate or information purporting to be so conveyed although the same contains some error or is not authentic and, when in the opinion of the Representative of the Bondholders to obtain such advice on any other basis is not viable notwithstanding any limitation or cap on Liability in respect thereof.

30.2 **Certificates of Issuer and/or Guarantor**

The Representative of the Bondholders may require, and shall be at liberty to accept (a) as sufficient evidence

30.2.1 as to any fact or matter prima facie within the Issuer's or the Guarantor's knowledge, a certificate duly signed by a director of the Issuer or (as the case may be) the Guarantor;

30.2.2 that such is the case, a certificate of a director of the Issuer or (as the case may be) the Guarantor to the effect that any particular dealing, transaction, step or thing is expedient,

and the Representative of the Bondholders shall not be bound in any such case to call for further evidence or be responsible for any loss that may be incurred as a result of acting on such certificate unless any of its officers in charge of the administration of these Rules shall have actual knowledge or express notice of the untruthfulness of the matters contained in the certificate.

30.3 **Resolution or direction of Bondholders**

The Representative of the Bondholders shall not be responsible for acting upon any resolution purporting to be a Written Resolution or to have been passed at any Meeting in respect whereof minutes have been made and signed or a direction of the requisite percentage of Bondholders, even though it may subsequently be found that there was some defect in the constitution of the Meeting or the passing of the Written Resolution or the giving of such directions or that for any reason the resolution purporting to be a Written Resolution or to have been passed at any Meeting or the giving of the direction was not valid or binding upon the Bondholders.

30.4 **Certificates of Monte Titoli Account Holders**

The Representative of the Bondholders, in order to ascertain ownership of the Covered Bonds, may fully rely on the certificates issued by any Monte Titoli Account Holder in accordance with the regulation issued jointly by the Bank of Italy and CONSOB on 13 August 2018, as amended from time to time, which certificates are to be conclusive proof of the matters certified therein.

30.5 **Clearing Systems**

The Representative of the Bondholders shall be at liberty to call for and to rely on as sufficient evidence of the facts stated therein, a certificate, letter or confirmation certified as true and accurate and signed on behalf of such clearing system as the Representative of the Bondholders considers appropriate, or any form of record made by any clearing system, to the effect that at any particular time or throughout any particular period any particular person is, or was, or will be, shown its records as entitled to a particular number of Covered Bonds.

30.6 **Rating Agencies**

The Representative of the Bondholders in evaluating, for the purposes of exercising any power, authority, duty or discretion under or in relation to these Rules that such exercise will not be materially prejudicial to the interests of the Bondholders of any Series or Tranche or of all Series for the time being outstanding, is entitled to consider, *inter alia*, the circumstance that the then current rating of the Covered Bonds of any such Series or Tranche or all such Series (as the case may be) would not be adversely affected by such exercise. If the Representative of the Bondholders, in order properly to exercise its rights or fulfil its obligations, deems it necessary to obtain the views of the Rating Agencies as to how a specific act would affect any outstanding rating of the Covered Bonds, the Representative of the Bondholders may inform the Issuer, which will then

obtain such views at its expense on behalf of the Representative of the Bondholders or the Representative of the Bondholders may seek and obtain such views itself at the cost of the Issuer.

30.7 Certificates of Parties to Programme Document

The Representative of the Bondholders shall have the right to call for or require the Issuer or the Guarantor to call for and to rely on written certificates issued by any party (other than the Issuer or the Guarantor) to the Intercreditor Agreement or any other Programme Document,

30.7.1 in respect of every matter and circumstance for which a certificate is expressly provided for under the Conditions or any Programme Document;

30.7.2 as any matter or fact *prima facie* within the knowledge of such party; or

30.7.3 as to such party's opinion with respect to any issue,

and the Representative of the Bondholders shall not be required to seek additional evidence in respect of the relevant fact, matter or circumstances and shall not be held responsible for any Liability incurred as a result of having failed to do so unless any of its officers has actual knowledge or express notice of the untruthfulness of the matter contained in the certificate.

30.8 Auditors

The Representative of the Bondholders shall not be responsible for reviewing or investigating any auditors' report or certificate and may rely on the contents of any such report or certificate.

31. AMENDMENTS AND MODIFICATIONS

31.1 Modifications

The Representative of the Bondholders may at any time and from time to time and without the consent or sanction of the Bondholders of any Series or Tranche concur with the Issuer and/or the Guarantor and any other relevant parties in making any modification (and for this purpose the Representative of the Bondholders may disregard whether any such modification relates to a Series or Tranche Reserved Matter) as follows:

31.1.1 to these Rules, the Conditions and/or the other Programme Documents which, in the opinion of the Representative of the Bondholders, it may be expedient to make **provided that** the Representative of the Bondholders is of the opinion that such modification will not be materially prejudicial to the interests of any of the Bondholders of any Series or Tranche; and

31.1.2 to these Rules, the Conditions and/or the other Programme Documents which is of a formal, minor, administrative or technical nature or to comply with mandatory provisions of law; and

31.1.3 to these Rules, the Conditions and/or the other Programme Documents which, in the opinion of the Representative of the Bondholders, is to correct a manifest error or an error established as such to the satisfaction of the Representative of the Bondholders.

31.2 **Binding Nature**

Any such modification may be made on such terms and subject to such conditions (if any) as the Representative of the Bondholders may determine, shall be binding upon the Bondholders and, unless the Representative of the Bondholders otherwise agrees, shall be notified by the Issuer or the Guarantor (as the case may be) to the Bondholders in accordance with Condition 18 (*Notices*) as soon as practicable thereafter.

31.3 **Establishing an error**

In establishing whether an error is established as such, the Representative of the Bondholders may have regard to any evidence on which the Representative of the Bondholders considers it appropriate to rely and may, but shall not be obliged to, have regard to a certificate from the Joint Arrangers:

(a) stating the intention of the parties to the relevant Programme Document;

(b) confirming nothing has been said to, or by, investors or any other parties which is in any way inconsistent with such stated intention; and

(c) stating the modification to the relevant Programme Document that is required to reflect such intention;

and may be entitled to consider, *inter alia*, the circumstance that, after giving effect to such modification, the Covered Bonds shall continue to have the same credit ratings as those assigned to them immediately prior to the modification.

31.4 **Obligation to act**

The Representative of the Bondholders shall be bound to concur with the Issuer and the Guarantor and any other party in making any modifications to these Rules, the Conditions and/or the other Programme Documents if it is so directed by an Extraordinary Resolution and then only if it is indemnified and/or secured to its satisfaction against all Liabilities to which it may thereby render itself liable or which it may incur by so doing.

32. **WAIVER**

32.1 **Waiver of Breach**

The Representative of the Bondholders may at any time and from time to time without the consent or sanction of the Bondholders of any Series or Tranche and, without prejudice to its rights in respect of any subsequent breach, condition or event but only if, and in so far as, in its opinion the interests of the Holders of the Covered Bonds of any Series or Tranche then outstanding shall not be materially prejudiced thereby:

32.1.1 authorise or waive any proposed breach or breach by the Issuer or the Guarantor of any of the covenants or provisions contained in the Guarantee, these Rules, the Conditions or the other Programme Documents; or

32.1.2 determine that any Event of Default shall not be treated as such for the purposes of the Programme Documents,

without any consent or sanction of the Bondholders.

32.2 **Binding Nature**

Any such authorisation or waiver or determination may be given on such terms and subject to such conditions (if any) as the Representative of the Bondholders may determine, shall be binding on all Bondholders and, if the Representative of the Bondholders so requires, shall be notified to the Bondholders and the Other Guarantor Creditors by the Issuer or the Guarantor, as soon as practicable after it has been given or made in accordance with the provisions of the conditions relating to Notices and the relevant Programme Documents.

32.3 **Restriction on powers**

The Representative of the Bondholders shall not exercise any powers conferred upon it by this Article 32 (*Waiver*) in contravention of any express direction by an Extraordinary Resolution, but so that no such direction shall affect any authorisation, waiver or determination previously given or made.

32.4 **Obligation to act**

The Representative of the Bondholders shall be bound to waive or authorise any breach or proposed breach by the Issuer or the Guarantor of any of the covenants or provisions contained in by Guarantee, these Rules or any of the other Programme Documents or determine that any Event of Default shall not be treated as such if it is so directed by a Programme Resolution and then only if it is indemnified and/or secured to its satisfaction against all Liabilities to which it may thereby render itself liable or which it may incur by so doing.

33. **INDEMNITY**

Pursuant to the Programme Agreement, all documented costs, expenses, liabilities and claims incurred by or made against the Representative of the Bondholders (or by any persons appointed by it to whom any power, authority or discretion may be delegated by it) in relation to the preparation and execution of this Agreement or the other Programme Documents, the exercise or purported exercise of, the Representative of the Bondholder's powers, authorities and discretions and performance of its duties under and in any other manner in relation to this Agreement or any other Programme Documents (including, but not limited to, legal and travelling expenses and any stamp, issue, registration, documentary and other taxes or duties paid by or due from the Representative of the Bondholders in connection with any action and/or legal proceedings brought or contemplated by the Representative of the Bondholders pursuant to the Programme Documents, against the Issuer or the Guarantor for enforcing any obligations under the Covered Bonds or the Programme Documents),

except insofar as the same are incurred as a result of fraud (*frode*), gross negligence (*colpa grave*) or wilful default (*dolo*) of the Representative of the Bondholders, shall be reimbursed, paid or discharged (on full indemnity basis), on demand, to the extent not already reimbursed, paid or discharged by the Bondholders, by the Guarantor and the Issuer on the Guarantor Payment Date immediately succeeding the date of request from funds available thereof in accordance with the relevant Priority of Payments.

34. LIABILITY

Notwithstanding any other provision of these Rules and save as otherwise provided in the Programme Documents the Representative of the Bondholders shall not be liable for any act, matter or thing done or omitted in any way in connection with the Programme Documents, the Covered Bonds or the Rules except in relation to its own fraud (*frode*), gross negligence (*colpa grave*) or wilful default (*dolo*).

35. SECURITY DOCUMENTS

35.1 The Deed of Pledge

The Representative of the Bondholders shall have the right to exercise all the rights granted by the Guarantor to the Bondholders pursuant to the Deed of Pledge. The beneficiaries of the Deed of Pledge are referred to in this Article 35 as the "**Secured Bondholders**".

35.2 Rights of the Representative of the Bondholders

35.2.1 The Representative of the Bondholders, acting on behalf of the Secured Bondholders, shall be entitled to appoint and entrust the Guarantor to collect, in the Secured Bondholders' interest and on their behalf, any amounts deriving from the pledged claims and rights, and shall be entitled to give instructions, jointly with the Guarantor, to the respective debtors of the pledged claims to make the payments related to such claims to the Programme Accounts or to any other account opened in the name of the Guarantor and appropriate for such purpose;

35.2.2 The Secured Bondholders irrevocably waive any right they may have in relation to any amount deriving from time to time from the pledged claims or credited to the Main Programme Account or to any other account opened in the name of the Guarantor and appropriate of such purpose which is not in accordance with the provisions of this Article 35. The Representative of the Bondholders shall not be entitled to collect, withdraw or apply, or issue instructions for the collection, withdrawal or application of, cash deriving from time to time from the pledged claims under the Deed of Pledge except in accordance with the provisions of this Article 35 and the Intercreditor Agreement.

TITLE IV
THE ORGANISATION OF THE BONDHOLDERS AFTER SERVICE OF AN NOTICE

36. POWERS TO ACT ON BEHALF OF THE GUARANTOR

It is hereby acknowledged that, upon service of a Guarantor Default Notice or, prior to service of a Guarantor Default Notice, following the failure of the Guarantor to exercise any right to which it is entitled, pursuant to the Mandate Agreement the Representative of the Bondholders, in its capacity as legal representative of the Organisation of the Bondholders, shall be entitled (also in the interests of the Other Guarantor Creditors) pursuant to articles 1411 and 1723 of the Italian Civil Code, to exercise certain rights in relation to the Cover Pool. Therefore, the Representative of the Bondholders, in its capacity as legal representative of the Organisation of the Bondholders, will be authorised, pursuant to the terms of the Mandate Agreement, to exercise, in the name and on behalf of the Guarantor and as *mandatario in rem propriam* of the Guarantor, any and all of the Guarantor's rights under certain Programme Documents, including the right to give directions and instructions to the relevant parties to the relevant Programme Documents.

TITLE V
GOVERNING LAW AND JURISDICTION

37. GOVERNING LAW

These Rules are governed by, and will be construed in accordance with, the laws of the Republic of Italy.

38. JURISDICTION

The Courts of Milan will have jurisdiction to hear and determine any suit, action or proceedings and to settle any disputes which may arise out of or in connection with these Rules.

FORM OF FINAL TERMS

Set out below is the form of Final Terms which will be completed for each Tranche of Covered Bonds issued under the Programme. Text in this section appearing in italics does not form part of the Final Terms but denotes directions for completing the Final Terms.

[***PROHIBITION OF SALES TO EEA RETAIL INVESTORS*** *- The Covered Bonds are not intended to be offered, sold or otherwise made available to and 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**"); or (ii) a customer within the meaning of Directive (EU) 2016/97, where that customer would not qualify as a professional client as defined in point (10) of article 4(1) of MiFID II. Consequently, no key information document required by Regulation (EU) No 1286/2014 (the "**PRIIPs Regulation**") for offering or selling the Covered Bonds or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Covered Bonds or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPS Regulation.*]

[***MiFID II PRODUCT GOVERNANCE / PROFESSIONAL INVESTORS AND ECPS ONLY TARGET MARKET*** *– Solely for the purposes of [the/each] manufacturer's product approval process, the target market assessment in respect of the Covered Bonds has led to the conclusion that: (i) the target market for the Covered Bonds is eligible counterparties and professional clients only, each as defined in [Directive 2014/65/EU (as amended, "**MiFID II**")][MiFID II]; and (ii) all channels for distribution of the Covered Bonds to eligible counterparties and professional clients are appropriate. Any person subsequently offering, selling or recommending the Covered Bonds (a "**distributor**") should take into consideration the manufacturer['s/s'] target market assessment; however, a distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of the Covered Bonds (by either adopting or refining the manufacturer['s/s'] target market assessment) and determining appropriate distribution channels.*]

Final Terms dated [●]

Banca Monte dei Paschi di Siena S.p.A. (the "Issuer")

Issue of [Aggregate Nominal Amount of Tranche] [Description] **Covered Bonds** (***Obbligazioni Bancarie Garantite***) **due** [Maturity]

Guaranteed by

MPS Covered Bond S.r.l. (the "Guarantor")
under the €20,000,000,000 Programme

PART A – CONTRACTUAL TERMS

Terms used herein shall be deemed to be defined as such for the purposes of the Terms and Conditions (the "**Conditions**") set forth in the prospectus dated 22 January 2019 [and the supplement[s] to the prospectus [●] 201[●]] which [together] constitute[s] a base prospectus (the "**Prospectus**") for the purposes of the Prospectus Directive (Directive 2003/71/EC) (as amended from time to time, the "**Prospectus Directive**"). This document constitutes the Final

Terms of the Covered Bonds (*Obbligazioni Bancarie Garantite*) described herein for the purposes of article 5.4 of the Prospectus Directive. These Final Terms contain the final terms of the Covered Bonds and must be read in conjunction with the Prospectus [as so completed]. Full information on the Issuer, the Guarantor and the offer of the Covered Bonds (*Obbligazioni Bancarie Garantite*) described herein is only available on the basis of the combination of these Final Terms, the Conditions and the Prospectus [as so completed]. The Prospectus [, including the supplement[s]] [is/are] available for viewing [at [*website*]] [and] during normal business hours at [address] [and copies may be obtained from [*address*]].

(*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 sub-paragraphs. Italics denote guidance for completing the Final Terms.*)

(When completing any final terms consideration should be given as to whether such terms or information constitute "significant new factors" and consequently trigger the need for a drawdown Prospectus under article 16 of the Prospectus Directive.)

1.	(i)	Series Number:	[●]
	(ii)	Tranche Number:	[●] (*If fungible with an existing Series, name of that Series, including the date on which the Covered Bonds become fungible*)
2.	**Specified Currency or Currencies:**		[●]
3.	**Aggregate Nominal Amount**		
	(i)	Series Number:	[●]
	(ii)	Tranche Number:	[●]
	(iii)	Aggregate Nominal Amount:	[●]
4.	**Issue Price:**		[●] 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:	[●] [plus integral multiples of [●] in addition to the said sum of [●]] (*Include the wording in square brackets where the Specified Denomination is €100,000 or equivalent plus multiples of a lower principal amount.*)
	(ii)	Calculation Amount:	[●]

	(iii)	Rounding:	[The provisions of Condition 19 apply/Not applicable]
6.	(i)	Issue Date	[●]
	(ii)	Interest Commencement Date	[[●]/Issue Date/Not applicable]
7.	**Maturity Date:**		[●] (*Insert date or (for Floating Rate Covered Bonds) Interest Payment Date falling in or nearest to the relevant month and year*)
8.	**Extended Maturity Date of Guaranteed Amounts corresponding to Final Redemption Amount under the Guarantee:**		[●] *(Insert date or (for Floating Rate Covered Bonds) Interest Payment Date falling in or nearest to the relevant month and year*)
9.	**Interest Basis:**		[[●] per cent. Fixed Rate][[*EURIBOR / LIBOR*] +/– [*Margin*] per cent. Floating Rate] [Zero Coupon] (*further particulars specified below in Sections 16, 17, or 18, as the case may be*)
10.	**Redemption/Payment Basis:**		[Redemption at par] [Instalment]
11.	**Change of Interest or Redemption/Payment Basis:**		[Applicable/Not applicable] (*Specify details of any provision for convertibility of Covered Bonds into another interest redemption/payment basis*)
12.	**Hedging through covered bond swaps**		[Applicable/Not applicable]
13.	**Put/Call Options:**		[Not applicable] [Investor Put] [Issuer Call] [(*further particulars specified below in Section 19 or 20, as the case may be*)]
14.	**[Date [Board] approval for issuance of Covered Bonds [and Guarantee] [respectively]] obtained:**		[●] [and [●], respectively]

		(N.B. *Only relevant where Board (or similar) authorisation is required for the particular tranche of Covered Bonds or related Guarantee*)
15.	**Method of distribution:**	[Syndicated/Non-syndicated]

PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE

16.	**Fixed Rate Provisions**		[The provisions of Conditions 5 apply /Not applicable] (*If not applicable, delete the remaining sub-paragraphs of this paragraph*)
	(i)	Rate(s) of Interest:	[●] per cent. per annum [payable [annually/ semi-annually/ quarterly/monthly/ in arrear]]
	(ii)	Interest Payment Date(s):	[●] in each year [adjusted in accordance with (*Insert Business Day Convention and any applicable Business Centre(s) for the definition of "Business Day*")/not adjusted]
	(iii)	Fixed Coupon Amount[(s)]:	[●] per Calculation Amount
	(iv)	Broken Amount(s):	[●] per Calculation Amount, payable on the Interest Payment Date falling [in/on] [●]
	(v)	Day Count Fraction:	[30/360/Actual/Actual (ICMA)]
	(vi)	[Determination Date(s):	[●] in each year. (*Insert regular interest payment dates, ignoring issue date or maturity date in the case of a long or short first or last coupon*) (N.B.: *Only relevant where Day Count Fraction is Actual/Actual (ICMA)*))
17.	**Floating Rate Provisions**		[The provisions of Condition 6 apply / Not applicable] / Applicable in respect of Extended Maturity Period] (*If not applicable, delete the remaining sub-paragraphs of this paragraph*)
	(i)	Interest Period(s):	[●]

(ii)	Specified Period:	[●] (*Specified Period and Interest Payment Dates are alternatives. A Specified Period, rather than Interest Payment Dates, will only be relevant if the Business Day Convention is the FRN Convention, Floating Rate Convention or Eurodollar Convention. Otherwise, insert "Not applicable*")
(iii)	Interest Payment Dates:	[●] (*Specified Period and Interest Payment Dates are alternatives. If the Business Day Convention is the FRN Convention, Floating Rate Convention or Eurodollar Convention, insert "Not applicable*")
(iv)	First Interest Payment Date:	[●]
(v)	Business Day Convention:	[Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention/FRN Convention]
(vi)	Additional Business Centre(s):	[Not applicable / TARGET / London/ Luxembourg / Milan]
(vii)	Manner in which the Rate(s) of Interest is/are to be determined:	[Screen Rate Determination/ISDA Determination]
(viii)	Party responsible for calculating the Rate(s) of Interest and/or Interest Amount(s) (if not the Principal Paying Agent):	[[*Name*] shall be the Calculation Agent]
(ix)	Screen Rate Determination:	
	− Reference Rate:	[●] (*For example, LIBOR or EURIBOR*)
	− Reference Banks:	[Not applicable] / [●]
	− Interest Determination Date(s):	[●]
	− Relevant Screen Page:	[●] [Reuters LIBOR 01/ EURIBOR 01] (*If not Reuters EURIBOR01, ensure it is a page which shows a composite rate or*

		amend the fallback provisions appropriately)
	– Relevant Time:	[●] (*For example, 11.00 a.m. Luxembourg time/Brussels time*)
	– Relevant Financial Centre:	[●] (*For example, Luxembourg/Euro-zone (where Euro-zone means the region comprised of the countries whose lawful currency is the euro*))
	– Specify Reference Rate	[●]
	– Specify Screen Page	[●]
(x)	ISDA Determination:	
	– Floating Rate Option:	[●]
	– Designated Maturity:	[●]
	– Reset Date:	[●]
	– ISDA Definitions:	[2000/2006]
(xi)	Margin(s):	[+/-][●] per cent. per annum
(xii)	Minimum Rate of Interest:	[●] per cent. per annum
(xiii)	Maximum Rate of Interest:	[●] per cent. per annum
(xiv)	Day Count Fraction:	[Actual/Actual (ICMA)/ Actual/Actual (ISDA)/ Actual/365 (Fixed)/ Actual/360/ 30/360/ 30E/360/ Eurobond Basis/ 30E/360 (ISDA)]
18.	**Zero Coupon Provisions**	[The provisions of Condition 7 /Not applicable] (*If not applicable, delete the remaining sub-paragraphs of this paragraph*)
(i)	[Amortisation/Accrual] Yield:	[●] per cent. per annum
(ii)	Reference Price:	[●]

PROVISIONS RELATING TO REDEMPTION

19.	**Call Option**	[The provisions of Conditions 8(d) apply/Not applicable]

		(*If not applicable, delete the remaining sub-paragraphs of this paragraph*)
	(i) Optional Redemption Date(s):	[●]
	(ii) Optional Redemption Amount(s) of Covered Bonds and method, if any, of calculation of such amount(s):	[●] per Calculation Amount
	(iii) If redeemable in part:	
	(a) Minimum Redemption Amount:	[[●] per Calculation Amount / not applicable]
	(b) Maximum Redemption Amount	[[●] per Calculation Amount / not applicable]
	(iv) Notice period:	[●]
20.	**Put Option**	[The provisions of Conditions 8(e) apply /Not applicable]
		(*If not applicable, delete the remaining sub-paragraphs of this paragraph*)
	(i) Optional Redemption Date(s):	[●]
	(ii) Optional Redemption Amount(s) of each Covered Bond and method, if any, of calculation of such amount(s):	[●] per Calculation Amount
	(iii) Notice period:	[●]
21.	**Final Redemption Amount of Covered Bonds**	[●] per Calculation Amount
22.	**Early Redemption Amount**	
	Early redemption amount(s) per Calculation Amount payable on redemption for taxation reasons or on acceleration following a Guarantor Event of Default or other early redemption:	[●]/[Not applicable] (*If both the Early Termination Amount (Tax) and the Early Termination Amount are the principal amount of the Covered Bonds/insert the Early Termination Amount (Tax) and/or the Early Termination Amount if different from the principal amount of the Covered Bonds*)

GENERAL PROVISIONS APPLICABLE TO THE COVERED BONDS

23.	**Additional Financial Centre(s)** or other special provisions relating to payment dates:	[Not applicable / Milan / Siena / Luxembourg / London] (*Note that this paragraph relates to the date and place of payment, and not interest period end dates, to which sub paragraphs 15(ii) and 16(vi)*)
24.	Details relating to Covered Bonds which are amortising and for which principal is repayable in instalments: amount of each instalment, date on which each payment is to be made:	[Not applicable/ monthly or quarterly or semi-annually or annually instalments / linear instalments]

DISTRIBUTION

25.	**U.S. Selling Restrictions:**	[Reg. S Compliance Category 2]/[TEFRA D]/[TEFRA C]/[Not applicable]
26.	**Prohibition of sales to EEA Retail Investors:**	[Applicable] / [Not applicable]

(*If the Covered Bonds clearly do not constitute "packaged" products, "Not applicable" should be specified. If the Covered Bonds may constitute "packaged" products and no KID will be prepared, "Applicable" should be specified*)

BENCHMARKS

27.	**Benchmark:**	[Not applicable] / [[*Benchmark*] provided by [*Benchmark administrator*]. As at the date hereof, [*Benchmark administrator*] [appears] / [does not appear] on the register of administrators and benchmarks established and maintained by the European Securities and Markets Authority pursuant to article 36 of the Benchmark Regulation (Regulation (EU) 2016/1011 (the "**Benchmarks Regulation**")). [As far as the Issuer is aware, EITHER [[*Benchmark administrator*] does not fall within the scope of the Benchmarks Regulation] OR [the transitional provisions in article 51 of the Benchmarks Regulation apply, such that [*Benchmark administrator*] is not currently required to obtain authorisation/registration (or, if located outside the European Union, recognition, endorsement or equivalence)].]]

PURPOSE OF FINAL TERMS

These Final Terms comprise the final terms required for issue and admission to trading on [the regulated market of the Luxembourg Stock Exchange/[●]] of the Covered Bonds (*Obbligazioni Bancarie Garantite*) described herein] pursuant to the €20,000,000,000 Covered Bond (*Obbligazioni Bancarie Garantite*) Programme of Banca Monte dei Paschi di Siena S.p.A.

[THIRD PARTY INFORMATION]

[The Issuer accepts responsibility for [(*Relevant third party information*)] which 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

Signed on behalf of MPS Covered Bond S.r.l.

By:

Duly authorised]

PART B – OTHER INFORMATION

1. LISTING AND ADMISSION TO TRADING

(i)	Listing	[Official list of the Luxembourg Stock Exchange/([●]) None]
(ii)	Admission to trading	Application [is expected to be/has been] made by the Issuer (or on its behalf) for the Covered Bonds (*Obbligazioni Bancarie Garantite*) to be admitted to trading on [the regulated market of the Luxembourg Stock Exchange/[●]] with effect from [●]. (*Where documenting a fungible issue, need to indicate that original Covered Bonds are already admitted to trading*.)

2. RATINGS

Ratings:	The Covered Bonds *(Obbligazioni Bancarie Garantite)* to be issued have been rated: [S & P: [●]] [Moody's: [●]] [Fitch: [●]] [[Other]: [●]] (*The above disclosure should reflect the rating allocated to Covered Bonds of the type being issued under the Programme generally or, where the issue has been specifically rated, that rating*.) [S&P] / [Moody's] / [Fitch] / [Others] *are established in the EEA and are registered under Regulation (EU) No 1060/2009.* *In general, European regulated investors are restricted from using a rating for regulatory purposes if such rating is not issued by a credit rating agency established in the EEA and registered under the Regulation (EU) No 1060/2009 ("CRA Regulation") unless the rating is provided by a credit rating agency operating in the EEA before 7 June 2010 which has submitted an application for registration in accordance with*

the CRA Regulation and such registration is not refused (Please refer to the ESMA webpage http://www.esma.europa.eu/page/List-registered-and-certified-CRAs in order to consult the updated list of registered credit rating agencies).

[Not applicable *(if not rated)*]

3. **[INTERESTS OF NATURAL AND LEGAL PERSONS INVOLVED IN THE ISSUE/OFFER]**

[Not applicable / Need to include a description of any interest, including conflicting ones, that is material to the issue/offer, detailing the persons involved and the nature of the interest. May be satisfied by the inclusion of the following statement:

"Save as discussed in ["Subscription and Sale"], so far as the Issuer is aware, no person involved in the offer of the Covered Bonds has an interest material to the offer."]

[MPS Capital Services Banca per le Imprese S.p.A., acting as a Dealer/Manager, may have a conflict of interest in connection with the issue of the Covered Bonds as they belong to the Montepaschi Group and are subject to control and guidelines of the Issuer.]

(*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 Prospectus under article 16 of the Prospectus Directive*.)

4. **TOTAL EXPENSES**

Estimated total expenses:	[●] (*Refer to total expenses related to the admission to trading*)

5. (*Fixed Rate Covered Bonds only*) **YIELD**

Indication of yield:	(*Please note that this is applicable in respect of Fixed Rate Covered Bonds and Zero Coupon Bonds only*) [Not applicable / [●]]

6. **[***Floating Rate Covered Bonds only* **- HISTORIC INTEREST RATES**

Details of historic [LIBOR/EURIBOR/other] rates can be obtained from [Reuters].]

7. **OPERATIONAL INFORMATION**

ISIN Code:	[●]
Common Code:	[●]
[CFI:	[Not applicable/[●]]
(*paying agent to confirm)*	
[FISN:	[Not applicable/[●]]
(*paying agent to confirm)*	
Any Relevant Clearing System(s) other than Euroclear Bank S.A./N.V. and Clearstream Banking, *société anonyme* and the relevant identification number(s) and address(es):	[Not applicable/[●] (give name(s), number(s) and address(es))]
Delivery:	Delivery [against/free of] payment
Names and Specified Offices of additional Paying Agent(s) (if any):	[Not applicable/[●]]
Name of the Calculation Agent	[●]
Name of the Representative of the Bondholders	[●]. The provisions of the Rules of the Organisation of the Bondholders shall apply.
Intended to be held in a manner which would allow Eurosystem eligibility:	[Yes][No][Not applicable] [*Note that the designation "yes" simply means that the Covered Bonds are intended upon issue to be deposited with one of the ICSDs as common safekeeper and does not necessarily mean that the Covered Bonds will be recognized 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*.]

USE OF PROCEEDS

The net proceeds of the sale of the Covered Bonds will be used by the Issuer for general funding purposes of BMPS.

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 "**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 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 10,328,618,260.14 as at the date of this 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 Law No. 218 of 30 July 1990 (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

2000-2012

Following the listing of the shares of the Bank, 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 the Bank resolved the reduction, as at such date, in Foundation's stake from 58.575 per cent. to 49 per cent. of BMPS ordinary capital, in accordance with the provisions of Legislative Decree No. 153 of 17 May 1999.

In the following years, the Bank has carried out a number of transactions aiming 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, the Issuer completed the acquisition of Banca Antonveneta from Banco Santander S.A.. The acquisition of Banca Antonveneta was funded by way of:

- equity instruments (two capital increases, one of which offered in subscription to J.P. Morgan Securities Ltd, subsequently renamed J.P. Morgan Securities plc) ("**J.P. Morgan**");
- debt instruments (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"); and
- a bridge loan entered into with a pool of banks which was redeemed in 2009 through the assignment of non-strategic assets.

At the same time, a business unit 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 30-year usufruct right over the securities in favour of the Bank on the basis of which J.P. Morgan retained the bare ownership of the shares, while the Bank held the usufruct thereon; the Bank and J.P. Morgan also entered into a swap agreement with a term equal to the term of BMPS.

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;

– 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);
    - 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.

The payment in favour of J.P. Morgan of the fee relating to the usufruct agreement – as amended – 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.

For information on the indemnity released by the Bank to The Bank of New York (Luxembourg) S.A. within the context of the issue of the FRESH 2008 and the relevant proceedings of the Bank of Italy and CONSOB having effects on the regulatory capital and on the net assets, please see "Legal Proceedings" of this Prospectus.

Furthermore, on 14 April 2008, the Foundation entered into total return swaps (the so-called "**TROR**"), having as underlying the FRESH 2008 securities. In addition, on 23 June 2012, as a result of the termination of the "TROR" agreements, the Foundation received the FRESH 2008 securities which have then been assigned during the course of November 2013.

"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. 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 collateralisation or marginalisation 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.

The economic impact of the settlement agreement for BMPS was negative for an amount of Euro 287 million (around Euro 194 million before taxes).

For more details and also with reference to the legal and administrative proceedings arising out of such transaction section, please see "Legal Proceedings" of this Prospectus.

"Alexandria" transaction

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 these 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 collateralisation 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 with a negative one-off economic impact for the Bank of around Euro 88 million before taxes.

For more details, also with reference to the legal and administrative proceedings arising out of such transaction see paragraph 9 ("*Legal Proceedings*").,

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Starting from 2009, the Group has completed:

- a process for the dismissal of branches mainly located in Tuscany, Umbria and Lazio by way of agreements entered into with Banca Popolare di Puglia e Basilicata S.c. a r.l., Banca Carige S.p.A. and Banca CR Firenze S.p.A. (Intesa Sanpaolo group);

- the incorporation of Banca Toscana S.p.A.;
- the rearrangement of the Group's asset management and real estate divisions by way of the creation of the "Prima Group" (through a partnership with the group headed by Clessidra SGR S.p.A. which has then been integrated in Anima Holding S.p.A. further to the integration between Prima SGR and Anima SGR;
- the establishment of the company Perimetro Gestione Proprietà Immobiliari S.c.p.a., with an initial 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**"), which have been fully reimbursed by the Bank through: (i) the issuance of new financial instruments convertible in ordinary shares of the Bank (the "**New Financial Instruments**") to be subscribed for by the MEF and eligible as supervisory capital (Core Tier 1) and (ii) a share capital increase by payment transaction with exclusion of option rights, pursuant to articles 2443 and 2441, subsection 5, of the Italian Civil Code, to be carried out 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.

During the years 2010-2011, 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 comprising 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;
- the partial demerger of MPS Immobiliare in favour of BMPS and New Banca Antonveneta;
- the progressive company integration between Prima Group and Anima SGR S.p.A., by way of an agreement entered into with Banca Popolare di Milano S.p.A., which led to the establishment of Anima Holding S.p.A., whose shareholding was sold to Poste Italiane. S.p.A. in April 2015;
- the merger by incorporation of MPS Commerciale Leasing S.p.A. was merged by incorporation into MPS Leasing & Factoring S.p.A.;

- 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; and

- the assignment of the 22 per cent. stake in the indirect subsidiary MPVenture SGR S.p.A. (at the time MPS Venture SGR S.p.A.) which was subsequently fully assigned in the course of the financial year ended on 31 December 2014.

Exercises conducted by EBA on banks' capital and capital enhancement measures adopted by BMPS

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 Montepaschi 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.

Following the approval of "banking package" by the European Union, the EBA issued 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:

- share paid capital increase transaction finalised on 20 July 2011 through the total subscription of the newly issued, ordinary shares;

- conversion into BMPS shares of the convertible bond FRESH 2003; and

- reduction of RWAs.

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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 2013 – 2017 followed by the new economic and capital targets relating to the period 2015-2018 (for more information on these new targets please see "*1Q2015 GMPS Results – Business Plan update*" published on the Issuer's website www.gruppomps.it).

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 the finalisation of the transaction allowed the Group to post a Euro 227 million gross capital gain.

On 28 November 2012, the Board of Directors of BMPS resolved upon the issuance of the New Financial Instrument for an amount equal to Euro 3.9 billion subscribed for by the MEF in the context of the extraordinary measures taken to support the banks, which have been fully reimbursed in accordance with the terms and conditions of the issuance.

2013 - 2019

During 2013, further amendments to the Bank's organisational structure were realised as part of the initiatives for the renewal of the management and aimed at rationalising the units of the Issuer.

Following the above renewal, the board of directors of BMPS resolved to bring the claims for liability and compensation against the former management of the Bank (a resolution that was then ratified by the shareholders' meeting) in relation to some structured transactions carried out during the previous accounting period which were sanctioned by the supervisory authorities.

During the period April 2013 – November 2013, the Issuer completed some corporate transactions in line with the business plan referred to above. In particular, the Issuer carried out the following transactions:

- the merger by incorporation deed of New Banca Antonveneta into BMPS;

- the merger by incorporation deed of MPS Gestione Crediti Banca S.p.A. into BMPS;
- the establishment of Banca Widiba S.p.A. – the online bank of the Group – fully owned by BMPS and authorised by Bank of Italy to exercise the banking activity and the investment services set out by article 1, paragraph 5, letter a) – f) of the Consolidated Finance Act;
- the termination of the shareholders' agreement entered into with Spoleto Credito e Servizi Soc.Coop.;
- the approval of 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.

Restructuring Plan 2013 - 2017

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 and subsequently approved by the European Commission.

In this context, the Restructuring Plan 2013-2017 provided for, inter alios, the increase of the net turnover and the reduction of the costs. In such context, the Bank agreed to some undertakings in line with the one that the Italian Republic undertook with the European Commission for its application of an exemption from the state aid provisions.

In particular, under the monitoring activity of the European Commission carried out by an independent monitoring trustee, the Bank undertook to do the following:

– Reduce of assets;

– Reduce of Italian government securities in the AFS portfolio;

– Assign of equity interests;

– Close of foreign branches;

– Close of domestic branches;

– respect the prohibition to carry out, for the entire term of the Plan, trading activities which may significantly increase the Bank's risk profile;

– respect the prohibition of acquisitions: 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 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;

– comply with the prohibition to pay dividends on hybrid capitalization instruments: it exists until the completion of the 2014 capital increase in the absence of any legal or contractual obligation to proceed with the payment;

– comply with the prohibition to carry out liability management transactions, except for those which are carried out in compliance with precise limits in terms of minimum discount over nominal value and premium compared to market price, to be promptly submitted for the approval of the competent offices of the European Commission;

– not distribute dividends until the completion of the capital increase carried out in 2014 and, in any event, within the limits imposed by the ECB further to the conclusion of the SREP for the year 2015;

– not use the granting of State aid or the competitive advantages which may derive therefrom for advertising purposes;

– orient the Bank's business policy towards prudence and sustainability;

– not adopt any aggressive business policy;

– reduce of operational costs;

– carry out a capital increase by 2014: the Bank fulfilled the commitment with the execution of the capital increase with option rights by Euro 5 billion in July 2014;

– limit the remuneration of senior management; and

– honour commitments relating to corporate governance by virtue of which the appointment of one third of the members of the board of directors would meet the independence requirements.

The Bank has complied with almost all the above-mentioned commitments. The completion of such commitments has been deferred to the Restructuring Plan for the period 2017-2021.

Outsourcing of 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 years with Fruendo S.r.l. and with Accenture S.p.A. for the outsourcing of such services, for the purpose of reducing the costs and slightly upgrading the financial services. For more information on Fruendo S.r.l. see section "*Legal Proceedings*" of this Prospectus.

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.

In July 2014 the capital increase provided for under the Restructuring Plan 2013-2017 was fully carried out.

Between August 2014 and November 2014, BMPS and the trade unions entered into an agreement relating to the adherence to the solidarity fund for a total of more than 1,400 units, thus reaching the target of the additional cost reduction.

The activity relating to the rationalisation and the cost reduction relating to the employees has been continued with the ratification, on 26 January 2016, by employees' meetings of the new level II bargaining entered into with all trade unions present within the company, assuring the rationalisation of the costs envisaged by the New Targets and implementing the commitments given to the European Commission in the context of the Restructuring Plan and introducing 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.

On 18 September 2014, the on-line bank, Banca Widiba S.p.A. began its operations.

On 5 December 2014, the merger by incorporation of MPS Immobiliare, company 100 per cent. controlled by the Issuer, into BMPS became effective, with accounting and tax effects 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.

Comprehensive assessment and capital enhancement

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 supervisory authorities in charge of conducting banking supervision, a thorough assessment which involved 130 EU credit institutions, among which was the Bank (the so-called comprehensive assessment).

The assessment carried out on the Bank 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 involved the submission by the Bank to the ECB of the Capital Plan (as defined below), which was approved by the ECB on 10 February 2015, 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 (the "**Capital Plan**"), 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 the assignment of non-core equity interests and high capital absorption treasury assets.

As part of the duties entrusted to the ECB within the framework of the SSM, the ECB, together with the comprehensive assessment, had also carried out the SREP for the year 2014 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 had requested the Bank to have a minimum threshold for Common Equity Tier 1 Ratio, on a transitional basis, equal to 10.2 per cent. and a minimum threshold for Total Capital Ratio, on a transitional basis, equal to 10.9 per cent..

In light of the SREP outcomes, the Issuer resolved upon 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. The capital increase was concluded on 19 June 2015 by means of a full subscription of the newly issued ordinary shares, with no intervention of the guarantee syndicate.

The Issuer furthermore resolved, inter alia, to (i) reduce the share capital to cover for the losses accrued and cumulative as at 31 December 2014, (ii) not recreate valuation reserves, (iii) group together ordinary shares, and (iv) amend, consequently, the corporate by-laws. The Issuer also 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.

Within the context of the programme for the dismissal of the assets and the assignment of receivables, which had been adopted in compliance with the principles set out in the Restructuring Plan 2013-2017, as supplemented in 2015, the Issuer has carried out the following activities:

– on 11 May 2015, the merger by incorporation of Consum.it S.p.A. into BMPS was entered into;

– on 23 June 2015, the Issuer entered into an 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..

– on 25 June 2015 a 10.3 per cent. equity interest held by BMPS in Anima Holding S.p.A. was sold to Poste Italiane S.p.A.;

– on 28 December 2015 a portfolio of non-performing unsecured receivables was assigned without recourse to Epicuro SPV S.r.l., a securitisation vehicle funded by companies affiliated with Deutsche Bank AG;

– on 23 June 2016, a portfolio of non-performing unsecured receivables (consumer credit, personal loans and credit cards receivables originated by Consum.it) has been assigned without recourse to Kruk Group.

<u>*SREP 2015*</u>

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) and shall submit a new capital plan in line with this. 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 and also 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 MPS Capital Services 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.

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, 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 supervisory 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.

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 adverse stress scenario had been designed by the ECB/ESRB covering a three-year horizon (2016-2018), assuming a static financial statement starting from December 2015, and hence disregarding changes in the business strategy, or other actions the Bank may have put in place.

On 29 July 2016, the board of directors, with the prior authorisation of the ECB for the purpose of excluding in full any impact on the LGD models arising out of the derecognition of part of the non-performing loan portfolio, approved the guidelines of a transaction structured in a series of activities functionally connected among each other (the "**2016 Transaction**") and, in particular:

- derecognition of part of the non-performing loan portfolio of the Montepaschi 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**") in which respect a pre-guarantee agreement was executed with certain international banks (the "**Pre-guarantee Agreement**"); and
- a further capital increase with exclusion of option rights to service the warrants issued in favour of the Italian Recovery Fund.

Furthermore, in line with what had been preliminarily disclosed to the ECB, the 2016 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 24 October 2016, the board of directors approved the new industrial plan which, inter alia, amended the Restructuring Plan 2013-2017 and called an extraordinary shareholders' meeting of the Bank for the purpose of approving the 2016 Transaction.

On 23 November 2016, the ECB released the necessary authorisations for the purpose of the 2016 Transaction, although subject to the condition subsequent of compliance with certain legislative requirements and the completion, by certain dates, of some parts of the 2016 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 2016 Transaction.

As part of the Capital Increase – provided for in the context of the 2016 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

liability management exercise ("LME"), 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.

The 2016 Transaction, with respect to the Capital Increase, was not completed within the expected timing (31 December 2016) further to the ECB having rejected, on 13 December 2016, the request of the Bank to extend the timing for its completion in light of changes in the market condition and a crisis in the Italian government.

Precautionary Recapitalisation, Capital Enhancement and relevant implementing measures, Public Offering for Exchange and Settlement

Having acknowledged the impossibility to complete the 2016 Transaction on 23 December 2016 the Bank sent to the ECB an extraordinary and temporary financial support request for the access to the so called "Precautionary Recapitalisation" scheme and, contextually, 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. In January 2017 the Bank was admitted to such measure and BMPS issued, within the course of 2017, three instruments, which were fully subscribed by the Bank and then on-sold in part on the market and also used as collateral for financing transactions.

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 Recapitalisation, highlighted the following:

(i) in relation to consolidated data, the Bank was solvent as it complied with the minimum capital requirements set by article 92 of the CRR. Furthermore, the Pillar II 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) highlighted 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 Euro 8.1 billion) as well as of one-month net liquidity (from Euro 12.1 – 7.6 per cent. of total assets – to Euro 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 Recapitalisation.

Further to such conversations, on 28 July 2017, pursuant to a ministerial decree (the "Burden Sharing Decree"), the MEF ordered the application of the Burden Sharing in accordance with the provisions of article 22, subsections 2 and 4 of Decree 237, 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 the Bank's ordinary shares at the unitary price of Euro 8.65.

On 28 July 2017, another ministerial decree (the "Recapitalisation Decree") was published by the MEF 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 Recapitalisation Decree, the shares reserved for the MEF were issued at the unitary price of Euro 6.49.

Further to 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 are held by Group companies after the perfection of the aforementioned interventions of Precautionary Recapitalisation.

By way of interpretation of the provision of the Burden Sharing Decree, providing for the contractual clauses limiting the computability in the Tier 1 capital being ineffective, the Bank's board of directors has extended to the implementation of the Burden Sharing Decree also to the FRESH 2008 securities, giving notice of such determination to Mitsubishi and J.P. Morgan, as holders of usufruct rights on such securities.

In addition to the above, the Bank also carried out the Public Offering for Exchange and Settlement (the "Offer") pursuant to Decree 237 and providing for the purchase by the Bank, in the name and of behalf of the MEF, of the new shares being settled between the Bank and those who has become shareholders pursuant to the Burden Sharing Decree. In particular, within the context of the Public Offering for Exchange and Settlement the purchase of the new shares had to be carried out pursuant to the terms and conditions set out in the informative document prepared by the Bank and approved by CONSOB.

In particular, the Offer was brought in connection with all the 237,691,869 ordinary shares of the Bank 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) (respectively, 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.

Upon completion of the Offer, on 23 November 2017, 198,521,533 UT2 Shares , equal to 83.520540 per cent. of the UT2 Shares to which the Offer relates, had been validly tendered into the Offer. Accordingly, the final pro rata allocation ratio was equal to 92.275041 and therefore the Bank, in the name and on behalf of the MEF, acquired 92.275041 per cent. of the UT2 Shares tendered into the Offer from each tenderer and returned, in accordance with the Offer document, the remaining UT2 Shares. Upon completion of the Offer, MEF had purchased a number of UT2 Shares so as to hold a share capital in the Bank equal to 68.247 per cent.

Restructuring Plan 2017-2021

On 26 June 2017, pending the execution of the actions for the Precautionary Recapitalisation and the Capital Enhancement, BMPS' board of directors approved the new economic, capital

and financial targets for the Group, referring to the period 2017-2021 (the "Restructuring Plan 2017-2021") and designed in the context of the procedure relating to the Precautionary Recapitalisation

The assumptions for the Precautionary Recapitalisation and the Capital Enhancement, together with the relevant implementing measures, were set out in the Restructuring Plan 2017-2021. The Restructuring Plan 2017-2021 was notified to the European Commission, which in July 2017 issued a positive decision on the compatibility of the intervention with the EU legislative framework on State aid, applicable to the recapitalisation measures of banks in the context of the financial crisis.

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 realisation of any future event, both in relation to the occurrence of such 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 hypothetical scenario would occur.

The Restructuring Plan 2017-2021 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, in addition to the actions already completed (e.g. the Burden Sharing): (i) cost reduction measures and restrictions in the matter of advertising and business policy; (ii) assignment of certain assets (in particular, Banca Monte dei Paschi Belgio S.A. and Monte Paschi Banque S.A.); (iii) adoption of risk containment measures; (iv) prohibition to carry out acquisitions; (v) restrictions on payments of coupons under outstanding instruments and to execute liability management transactions; and (vi) prohibition to pay dividends and restrictions on the remuneration of employees.

2017 – SREP annual process and participation in ECB's 2018 stress test

Further to the conclusion of SREP process for the year 2017, on the basis of the data as at 31 December 2016, and taking into account the information received after such date among which, specifically, was the draft Restructuring Plan 2017-2021 submitted by the Bank to the European Commission, the ECB requested the Bank to maintain 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 II capital requirement fully comprising 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 Pillar II requirements, 1.875 per cent. in terms of capital conservation buffer and 0.06 per cent. in terms of O-SII Buffer. The capital conservation buffer will be at full steam in 2019 with 2.5 per cent.. It should be noted that, starting from 1 January 2019, the Group will not be required to comply with O-SII buffer since it has not been qualified by the Bank of Italy as a national systemically important institution authorised to operate in Italy.

The SREP Decision 2017 introduced the Pillar II 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 II 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 abovementioned quantitative requirements, the SREP Decision 2017 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 2017-2021 incorporated the requests included in the SREP Decision 2017 and the findings of the ECB inspection closed in May 2017. In fact, with the almost total disposal of the NPL Portfolio (as defined below) (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 to the standard provided by the supervisory authority.

Further to the conclusion of the SREP, 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 that out a lack of ability to implement and carry out the strategy devised by the board of directors, for instance through practical commercial measures, was also associated with a less favourable change of macroeconomic conditions than had been 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 they had yet to assess the mitigation activities already implemented by the Group; (iii) the credit quality in respect of the high and exceeding by 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 the 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; (vi) 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, pending the completion of the process for the Capital Enhancement and the Assignment of the NPL Portfolio, highlighted additional risk

profiles associated with the BMPS' structural financial position and relating to the completion of such transactions (which have since then been completed).

By means of the SREP Decision 2017, the ECB informed the Issuer that, with respect to the subsidiaries, no additional capital requirements were requested compared to the minimum ones set by the current legislation in force for the subsidiaries MPSCS, MPS Leasing & Factoring S.p.A. and Wise Dialog Bank S.p.A. whilst has introduced additional capital requirements were required, 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 II capital requirement fully comprising 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 compliance with governance rules.

In relation to the subsidiary MP Banque the ECB has requested 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 II 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.

For both MP Belgio and MP Banque, the SREP Decision 2017 introduced the capital guidance (so called "**Pillar II 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.

During the course of 2018 the Bank has not been subject to any stress test (neither in EBA EU wide mode nor for the purpose of the SREP).

Termination of the qualification as O-SII

On 30 November 2018, the Bank of Italy informed the Issuer that it no longer qualified as a national systemically important institution authorised to operate in Italy and therefore, as from 1 January 2019, it will not be required to hold the O-SII buffer.

ECB/Bank of Italy inspections concluded during the period 2015-2019

Ordinary inspection activity on credit risk and the portfolio of receivables (OSI 3435)

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 remedial actions identified. Such actions are of organisational, internal regulation, process and control nature, as well as of structural enhancement for supporting IT tools.

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 ("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. The remedy action plan agreed with the ECB provided 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).

As of the date of this Prospectus, all activities provided for the 31 recommendations have been completed, with the exception of some technical solutions related to the remedy action no. 31 being postponed to 2019.

The final accounting relating to ARGO 2 was sent by the Issuer and, as of the date of this Prospectus, the final assessment of the ECB has not yet been sent to the Bank. However, some of the requests in relation to the findings related to the proceeding in respect of which the Bank has started the intervention and remedy programme named ARGO 3, issued in the context of the inspection activity OSI 1238, which replicate the findings set out in ARGO 2.

Thematic Review on Risk Governance and Appetite carried out by the ECB

On 3 March 2016, the ECB informed the Issuer on the results of the investigation relating to the functioning of the offices responsible for the strategic, control and management supervision and to the Risk Appetite Framework ("RAF"), carried out in 2015 in respect of the significant entities of the Euro zone. In particular, the ECB recommended: (i) to raise the competence and expertise of the board of directors 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 (ii), in respect of the risk appetite framework, that the RAF should have been 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.

As at the date of the Prospectus, remedial actions are almost entirely completed in compliance with the deadlines requested and evidence of the implemented remedial actions has been provided to the supervisory authority.

Ordinary inspection activity on the governance of the Banks and the risk management system (OSI 3233)

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.

Inspection activity on the risks relating to credit, counterparty and control system (OSI 1238)

In May 2016, the ECB and the Bank of Italy started an inspection (OSI 1238) within the Bank concerning the control system of credit and counterparty risk with respect to the retail portfolio, SMEs portfolio and corporate portfolio of the Bank, MPS Capital Services and MPS Leasing Factoring that ended in February 2017.

On 13 February 2018, the Issuer received the follow up letter from the supervisory authority setting out the findings relating to the inspection (mainly 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) to which the Issuer replied on 15 March 2018 informing the supervisory authority the programme setting out the remedies expected to be implemented by the end of 2018. In this respect, please note that the Restructuring Plan incorporates the result of the inspection carried out by the ECB on the portfolio of receivables (CFR) as of 31 December 2015 highlighting further allocations to be implemented compared to the coverage levels as at the relevant date. This impact has already been incorporated in the 2017 financial statements. As of the date of this Prospectus the Issuer does not believe that further corrections to the receivables – expect to the one set out in the Restructuring Plan – are needed.

In order to ensure the monitoring of the interventions, the Bank started a project named ARGO 3, managed by the Chief Lending Officer. In this respect, the activities are in line with the scheduled planning, and all deliverables scheduled for 30 June 2018 have been completed.

As of the date of this Prospectus, the final assessment of the ECB has not yet been sent to the Bank.

Verification activity on banking transparency

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 had 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. On 7 November 2017, the supervisory authority requested further details, in particular with regard to the timing of such remedy actions.

On the same occasion, the Authority asked whether the Bank had reserved any amount relating to the reimbursement in its financial statements and requested an update on the completion of the intervention plan on transparency approved in August 2013 and the reimbursement activities relating to limitation that occurred in the calculation of interests in case of the negative indexes.

The response sent to the Authority on 15 December 2017 set out an update on the activities, the deadlines and the amount reserved in the income statement relating to the reimbursement for the annulment of the unilateral amendments proposals (Euro 5.8 million) and an update relating to the 2013 intervention plan, almost completed, and on the activities carried out in relation to the negative indexing parameters.

On 7 August 2018, the Bank of Italy sent a further notice inviting the Bank to (i) re-examine the fees schemes relating to the advances on invoices transactions, (ii) strengthen the Bank capacity to quickly face other criticalities found during the inspections and (iii) give updates on the state of implementation of the planned activities. The reply was sent on 19 October 2018 coupled with the assessments of the compliance and audit offices. With regard to point (i) and (ii) the Bank undertook to implement the requests of the Bank of Italy; with regard to point (iii) the state of implementation was provided.

Bank of Italy inspection on transparency in relation to Banca Widiba S.p.A.

During the period between 13 November 2017 and 9 January 2018, Bank of Italy carried out an inspection on Banca Widiba S.p.A. aimed at verifying the organisation and the control systems implemented by the intermediary to ensure the compliance with transparency requirements. In this respect, the authority analysed the regulatory framework, the processes – also the externalised ones – the structure of the controls and a sample of the relationships and transactions relating to the different categories of banking products and services offered by the Bank, the type of clients and the offering channels.

On 10 April 2018, the Bank of Italy notified the inspection report to Banca Widiba S.p.A., setting out ten issues and an assessment "partially compliant" due to weakness in the control structure. This entailed the non fully compliance with the relevant transparency provisions, in particular with reference to the process of unilateral amendment of the terms and conditions and the determination of certain fees.

As a consequence of such weakness, on 11 June 2018, Banca Widiba S.p.A. sent to the supervisory authority the remediation plan, providing for 41 interventions and detailing the ones already implemented (17 as of that date) and the one to be implemented (no. 24), including the relevant timetable. As requested by the Authority, the Bank also gave its opinions on the issues and the relevant intervention set out by Banca Widiba S.p.A. On 28 September 2018, Banca Widiba S.p.A. sent a letter to Bank of Italy setting out the state of interventions implemented in relation to the issue raised by the authority highlighting that, as of that date, 21 interventions had been completed, five interventions about to be completed, 14 interventions still being implemented and one intervention had to be started yet. In addition, as requested by the Authority, Banca Widiba S.p.A. reimbursed the amount wrongfully charged to its customers.

Inspection activity on anti-money laundering

During the month of June 2017, the anti-money laundering service has been subject to an on-site inspection from the Bank of Italy aimed at assessing the procedures in the context of identification and adequate enhanced review on politically exposed persons ("PEPs").

During the inspection – started on 5 June 2017 and ended on 6 July 2017 – the Bank of Italy carried out an analysis of the organisational structures, the internal rules and the internal processes, with particular reference to the process of evaluation of PEPs and to the continuous monitoring, in addition to specific considerations on a sample of clients independently identified.

The supervisory authority communicated the result of the inspection to the board of directors of the Bank, describing the goals of the on-site inspections that had been carried out at system level, which are used as standards in order to suggest the best practices observed in the industry. Even if it clarified that a sanctioning procedure would not have been started, the Supervisory Authority underlined certain areas of improvement that were concerning, in particular: the risk profiling; the adequate verification; and the internal controls and the identification of PEPs. As of the date of this Prospectus, the Bank informed the supervisory authority on the remedy activities already implemented and to be implemented in relation to the issues highlighted. The letter of reply – the content of which was approved by the board of directors of the Issuer on 27 October 2017 – was sent on 3 November 2017 and it was drafted by the chief audit executive office and the control, claims and compliance office of the Bank in order to promptly answer to the request of the Authority, highlighting the activities already implemented, the activities which are being implemented and the activities which have been planned.

The findings related to two inspections started by the Financial Information Unit of the Bank of Italy and by the Bank of Italy have not been communicated yet.

The main subject matter of the first inspection, started on 8 May 2018 and completed at the end of August, was the assessment of the procedures implemented in order to verify potential anomalies relating to the Bank's customers.

The main subject matter of the second inspection, started on 5 June 2018 in relation to the Bank and Banca Widiba S.p.A., was the assessment of compliance with anti-money laundering provisions.

Bank of Italy inspection activity on usury

Starting from 6 June 2018, the Bank of Italy commenced an inspection aimed at verifying the appropriateness of the organisational structures in order to correctly set out the global average interest rates and prevent risks linked to a violation of the provisions on usury. The inspection ended in September 2018. The Bank is waiting the findings of the supervisory authority.

ECB inspection activity in relation to the review of the internal models (TRIM-2939)

On 21 November 2017, in the context of the process of review of the internal models (TRIM – Targeted Review of Internal Models) ECB started an on-site inspection relating to the internal model on credit risk for the Issuer and the Group with reference to the parameters Probability to Default and Loss Given Default, within the perimeter of retail – non SME – providing real estate guarantees.

The on-site inspection relating to the internal model on credit risk was carried out in the period between December 2017 and April 2018. On 10 July 2018, the Bank received from the ECB the inspection assessment report setting out 19 findings in relation to which, on 4 May 2018, the Bank replied by a letter providing for an action plan; the Issuer is waiting for the reply of the ECB.

With a letter dated 30 November 2017, the ECB sent to the Issuer the follow up letter relating to TRIM general topics review setting out one finding which the Bank considers to have solved as communicated to the ECB with a letter of reply on 13 December 2017.

With a following letter dated 15 January 2018, the ECB sent to the Issuer a feedback relating to the auto-assessment phase of TRIM general topics, identifying seven deviations with respect to the asked requirements. On 22 March 2018 the Issuer sent the response letter indicating the remedial actions and the relevant timeline.

On 27 November 2018 the ECB informed BMPS that, within the context of TRIM, as from 21 January 2019 an on-site inspection relating to the internal model on credit risk for the Issuer and the Group with reference to the parameters Probability to Default and Loss Given Default, within the perimeter of Corporate – other exposures will be carried out.

Inspection OSI-IT Risk

During the period in between 26 March 2018 and 26 June 2018, the ECB carried out an on-site inspection relating to the Information Technology risk (IT Risk) of the Group. As of the date of this Prospectus, the Issuer is waiting to receive the draft follow up letter.

Internal Model Investigation – IMI 40

On 14 June 2018, the ECB formally notified the Issuer of its final decision relating to the internal inspection on the models for the calculation of the requirements in relation to the credit risk ended on 4 December 2015, setting out 21 findings. On 11 July 2018, the Issuer sent to the ECB its plan setting out the relevant remedial actions and implemented the limitations set out in the prudential data.

Extraordinary transactions carried out in the period 2017 - 2018

Assignment of the equity interests held in Bassilichi S.p.A.

The assignment of the equity interest in Bassilichi S.p.A. from the Bank to the Istituto Centrale delle Banche Popolari Italiane S.p.A ("**ICBPI**") was finalised in June 2017 with the execution of the agreement with CartaSi S.p.A. for the assignment of BMPS activities related to the merchant acquiring business and of the equity interest held in Bassilichi S.p.A. and in Consorzio Triveneto S.p.A.. In relation to the assignment of Bassilichi S.p.A., it was specified that the equity interest in the company Fruendo (the company to which the Issuer had transferred the back-office activities), in which Bassilichi S.p.A held a majority stake, was not included in the assignment.

Juliet transaction

The "Juliet" transaction – resolved by BMPS' board of directors on 14 November 2016 – related to the outsourcing of special servicing activities of the new non-performing loans inflows that

are expected to be generated by BMPS over the next ten years in addition to other non-performing loans arising from the securitisation of BPMS assets as well as other securitisation transactions promoted by Quaestio. The completion took place on 14 May 2018 between BMPS, Cerved Group S.p.A. and Quaestio Holding SA; the transaction related to the purchase of a platform for the recovery of non-performing loans of BMPS by Quaestio Cerved Credit Management S.p.A., a company set up by Cerved and Questio Holding.

The Juliet platform provides special servicing activities on non-performing loan portfolios; it is expected to service at least 80 per cent. of the non-performing loans originated by BMPS over a period of ten years in addition to other non-performing loans arising out of securitisation transactions of BMPS and/or Quaestio.

The consideration for the assignment amounted to Euro 52.6 million, in line with the Euro 52.5 million announced on 2 August 2017 adjusted to working capital, to which an earn-out could be added for a total maximum amount of Euro 33.8 million, payable in two tranches upon the realization of certain economic results following the approval of the financial statements of Juliet as at 31 December 2020 and 31 December 2025.

Assignment of the NPL Portfolio and derecognition of the securitised portfolio

On 27 June 2017, the Bank entered into an agreement with Quaestio Capital Management SGR S.p.A. providing for the transfer of a portfolio of non-performing receivables having a gross book value (GBV) of about Euro 26 billion, as of 31 December 2016, (the "**NPL Portfolio**").

The transaction has been structured according to the following phases: firstly (i) the securitisation of the non-performing receivables pursuant to Law 130/99 through the issuance of senior, mezzanine and junior asset backed notes and (ii) secondly, the transfer of part of such notes to Quaestio SGR on behalf of Italian Recovery Fund.

During the first phase of the transaction, the securitisation vehicle established pursuant to Law 130/99, which acquired BMPS' bad loan portfolio, issued the following notes (ABS, asset-backed securities):

- Senior notes for Euro 2,918 million (the notes had initially been issued in December 2017 for an higher amount, equal to Euro 3,095.6 million, then reduced following the first payment date of 30 April 2018), which have been assigned an A3/BBB+/BBB rating by Moody's Investors Service, Scope Ratings GmbH and DBRS Ratings Limited, respectively covered by the State Guarantee ("**GACS**") for a gross value of Euro 24.1 billion (net value of Euro 4.3 billion) which have been initially retained by BMPS, MPS Capital Services and MPS Leasing & Factoring (the "**Assigning Banks**"), which will subsequently consider their partial placement on the market.

- Mezzanine notes for Euro 847.6 million, unrated, the 95 per cent. of which were sold on 22 December 2017 to the Italian Recovery Fund.

- Junior notes for Euro 565 million, unrated, the 95 per cent. of which were sold on 22 June 2018 to the Italian Recovery Fund.

The transfer of the Junior Notes, in addition to that of the Mezzanine Notes and the total outsourcing of portfolio recovery activities, entailed the concurrent derecognition of the NPL Portfolio, for a gross value of approximately Euro 24.1 billion (net value of Euro 4.3 billion).

Please note that the economic effects relating to the valuation of the assigned portfolio have already been accounted in the financial year ending on 31 December 2017 on the basis of the realisation values deriving from the relevant agreements.

This transaction marked the full achievement of the objectives set by the Quaestio Agreement, which called for the acquisition by Quaestio of the Mezzanine Notes and Junior Notes of the Group's securitised NPL Portfolio by 30 June 2018.

Sale of Banca Monte dei Paschi Belgio S.A.

On 5 October 2018, BMPS reached an agreement with a company controlled by funds managed by Warburg Pincus for the sale of Banca Monte dei Paschi Belgio S.A. The agreement is one of the Commitments set out in the Restructuring Plan. The impact of such transaction on BMPS CET1 is not relevant and it has already been included in the forecasts set out in the Restructuring Plan. The sale is subject to the approval of the Belgium National Bank and the ECB.

Casaforte global public offer on Class A asset backed notes and Class B asset backed notes issued by Casaforte S.r.l. launched by BMPS

On 26 October 2018, BMPS published, in its capacity as offeror, the offer document (approved on the same date by CONSOB) relating to a voluntary global public offer on the entire outstanding classes of asset backed notes issued on 22 December by Casaforte pursuant to article 5 of Law/130, saved for the notes already held by BMPS on that date. The offer period started at 8:30 (Italian time) on 29 October 2018 and it ended at 17:30 (Italian time). Following such offer period, BMPS holds approximately 97.594 per cent. of the class A asset backed notes and approximately 99.808 per cent. of the class B asset backed notes issued by Casaforte S.r.l..

Other events relating to 2017-2019

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 Group, the expiration of which had been scheduled for 31 December 2017. The new partnership agreement increases the commercial offer, furthermore providing, starting from the new year, an extension to the whole national territory of the financing through loans guaranteed by the disposal of the one-fifth of the borrower’s 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. The new agreement was entered into on 11 October 2017.

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 of 18 December 2017

On 18 December 2017, the ordinary and extraordinary shareholders' meeting of the Bank approved:

(a) a reduction in share capital due to losses, pursuant to article 2446 of the Italian Civil Code, in the amount of Euro 5,364,181,090.83;

(b) 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;

(c) the appointment of new members (14) to the board of directors;

(d) the appointment to the new board of statutory auditors; and

(e) remuneration of the members of the board of directors and the board of the statutory auditors.

Furthermore, Stefania Bariatti was appointed as president of the board of directors of the Bank and Antonino Turicchi was appointed as vice-president.

Confirmation of the Chief Executive Officer

On 22 December 2017 the board of directors confirmed the appointment of Marco Morelli as chief executive officer of the Bank.

Issue of subordinated Tier 2 Bond successfully completed

On 11 January 2018, BMPS announced that it has successfully completed the issue of a "Tier 2" subordinated bond with a 10-year maturity, and a size of Euro 750 million. The bond pays a fixed-rate coupon of 5.375 per cent. and has an issue price of 100 per cent., consistent with a spread of 500.5 basis points above the 5-year swap rate. The transaction was met with orders for over Euro 2.7 billion from about 250 institutional investors, 3.6 times above the offer.

Andrea Rovellini was appointed Chief Financial Officer of the Bank

On 12 March 2018, Andrea Rovellini was appointed Chief Financial Officer of the Bank, following Francesco Mele resignation.

New organisational structure to serve local areas, customers and digitalisation

On 17 April 2018, Banca Monte dei Paschi di Siena launched a new organisational structure, accompanied by a change in the managerial set-up with a view to progressive generational renewal and the enhancement of internal resources.

The new structure supports the full commercial relaunch of the Bank, which finds its strong focus on attention to the territory and to innovation, in a logic of managerial enhancement and acceleration to the revival of the Bank.

In particular, a new Network Division has been created, which reports directly to the CCO and is in charge of overseeing the BMPS commercial network through its 5 territorial areas, focusing on commercial coordination with a strong customer focus.

In a logic of ever-increasing attention to technological innovation, Widiba, the Group's on-line bank, and the Group's IT Service Company, Consorzio Operativo, report directly to the CEO of BMPS.

At the same time, following the exit of certain managers of the Bank, the managerial line has been renewed, with the enhancement of internal resources who have distinguished themselves for their competence and professional capacity.

BMPS completes disposals of non-performing loans for a total amount of Euro 3.5 billion

On 2 January 2019 Banca Monte Paschi di Siena has signed binding agreements for the disposal of:

- a portfolio of EUR 2.2 billion1 of unsecured small-ticket and consumer credit non-performing loans (so-called "**Progetto Merlino**"). The buyers of this portfolio, which was subdivided into 4 separate clusters based on the type and/or amount of individual exposures, are IFIS NPL S.p.A. (Small and Consumer Clusters), Credito Fondiario S.p.A and Fire S.p.A (Mid Cluster) and Balbec Capital LP (Large Cluster);

- a portfolio of EUR 0.9 billion of leasing bad loans (so-called "**Progetto Morgana**"), sold to Bain Capital Credit;

- a portfolio of EUR 0.4 billion of UTPs (so-called "**Progetto Alfa 2**"). With this transaction, the Bank achieves, in 2018, an overall UTP reduction of approximately EUR 1.9 billion, exceeding the Plan's annual target of EUR 1.5 billion.

The entire disposal programme will be factored into the 2018 financial accounts, with a marginal impact on the income statement. Progetto Merlino and Progetto Alfa 2 were completed in 2018, whereas Progetto Morgana will be completed in 2019.

The conclusion of these transactions, which follow the disposal of bad loans for around EUR 24 billion completed last June, represents an important step forward in the de-risking process envisaged by the 2017- 2021 Restructuring Plan and in meeting the commitments taken with the European Commission.

Merger by way of incorporation of perimetro gestione proprietà immobiliari into BMPS

Following the authorisation issued by the European Central Bank on 27 December 2018 pursuant to Articles 4, paragraph 1, lett. d) and e) and 9, paragraph 1, of EU Regulation no. 1024/2013, and pursuant to Article 57, paragraph 1, of Italian Legislative Decree no. 385/1993 and of the Bank of Italy Circular no. 229/1999, Title III, Chapter 4, according to Article 2501-ter of the Italian Civil Code, the merger project by way of incorporation of Perimetro Gestione Proprietà Immobiliari S.C.p.A. ("**Perimetro**") into BMPS has been filed with the Arezzo-Siena Companies Register on 11 January 2019.

The merger – which is expected to be preceded by the acquisition by BMPS of the residual minority intragroup shares of Perimetro – shall be approved by the Board of Directors of BMPS, pursuant to Articles 17, paragraph 1, of the BMPS by-laws, without prejudice, pursuant to Article 2505, paragraph 3, of the Italian Civil Code, such decision to be resolved upon by

the BMPS extraordinary meeting, pursuant to Article 2502, paragraph 2, of the Italian Civil Code.

Ratings

On 3 December 2018, Moody's reduced BMPS' long-term rating to "Caa1" from "B3", changing the outlook to Negative from Stable. At the same time, the rating agency confirmed the bank's "ca" standalone baseline credit assessment (BCA) as 'caa1'.

On 24 July 2018, Fitch confirmed the BMPS' long-term Issuer Default Rating ("IDR") as "B" with Stable outlook and confirmed the short-term rating as "B".

On 19 June 2018, DBRS confirmed the BMPS' long-term rating as "B" (high) and the short-term rating as R-4, and confirmed the relevant outlooks as Stable.

Ratings Agencies	Long term rating	Outlook	Short term rating	Outlook	Last updated
Moody's	Caa1	Negative	NP[3]	-	3 December 2018
Fitch	B	Stable	B[4]	-	24 July 2018
DBRS	B (High)	Stable	R-4[5]	Stable	19 June 2018

4. PRINCIPAL COMPANIES OF THE MONTEPASCHI GROUP

BMPS, as the parent company of the 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 Group, pursuant to the fourth paragraph of article 61 of the Legislative Decree of 1 September 1993, No. 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 Prospectus.

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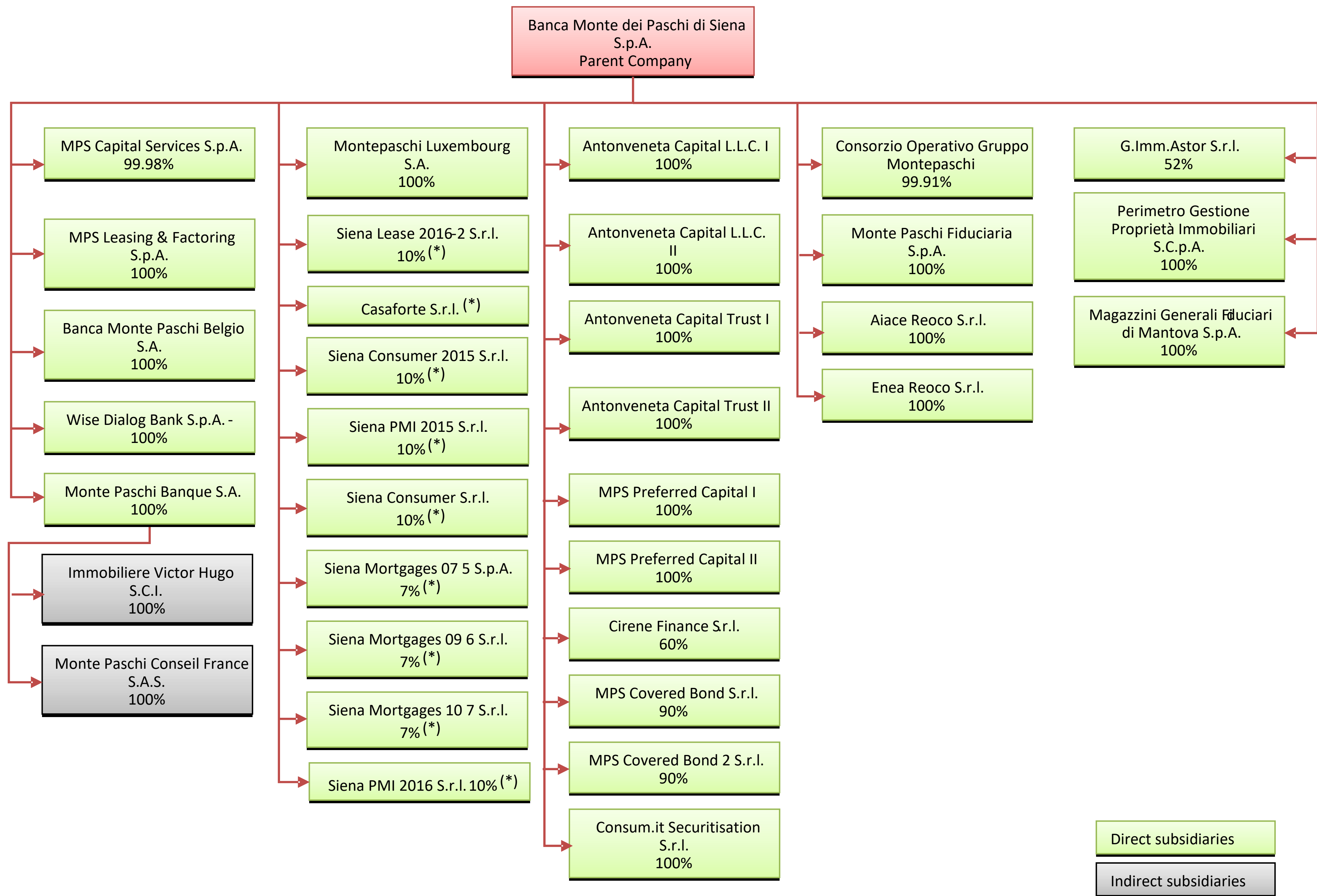
[3] Pursuant to the rating scale of Moody's Investor Service, "NP" rating refers to issuers rated "Not Prime" do not fall within any of the "Prime" rating categories.

[4] 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.

[5] 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. GROUP PROFILE

As at 30 September 2018, the Group is an Italian banking institution with 23,189 employees, approximately more than 5 million customers, assets of around Euro 132,2 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 2018:

	Number	**Percentage on the total of the branches**
North	**643**	**40.3%**
Piemonte	37	2.3%
Valle d'Aosta	2	0.1%
Liguria	21	1.2%
Lombardia	226	14.2%
Trentino Alto Adige	3	0.2%
Veneto	209	13.1%
Friuli Venezia Giulia	42	2.6%
Emilia Romagna	103	6.4%
Center	**558**	**34.9%**
Toscana	337	21.1%
Marche	42	2.6%
Umbria	40	2.5%
Lazio	139	8.7%
South and Islands	**396**	**24.8%**
Abruzzo	34	2.1%
Molise	5	0.3%

Campania	90	5.6%
Basilicata	10	0.6%
Puglia	96	6.0%
Calabria	43	2.7%
Sardegna	11	0.7%
Sicilia	107	6.7%
Total	**1,597**	**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 2018, 1,597 branches, 208 specialised centres and 115 financial advisory branches.

The foreign network includes, as at 30 September 2018, four operational branches (London, New York, Hong Kong and Shanghai), ten representative office boards located in various "target areas" (EU, Central-Eastern Europe, North Africa, India and China) and two banks under foreign law – Banca Monte Paschi Belgio, actually in dismission, and Monte Paschi Banque S.A., actually in run-off.

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 MPS Capital Services, 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

As at the date of this Prospectus, the Group successfully employs various sources of funding, both on the retail domestic market and on international markets dedicated to qualified investors.

Retail domestic market

The 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 Group throughout its network of branches.

International markets

The Group has different international programmes dedicated to qualified investors.

On a medium-term basis, the 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 "Euro 50 billion Debt Issuance Programme" and covered bonds issued under the "Euro 20 billion Covered Bond Programme".

With regard to the issuances under the EMTN Programme, on 1 April 2014, the Group issued Euro 1 billion Senior Unsecured Fixed Rate Notes due 2019; on 11 January 2018 the Group issued Euro 750 million 10NC5 T2 Subordinated Notes due 2028.

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 31 December 2018, 13 issues were outstanding for a total aggregate notional amount of Euro 8,1 billion.

7. INFORMATION TECHNOLOGY

In recent years the 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 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 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 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 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 Prospectus there were various legal proceedings pending against the Bank, including civil, criminal and administrative actions.

These proceedings 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 in various manners related to the Burden Sharing in relation to which please see "*Disputes relating to securities subject to the Burden Sharing*" of this Prospectus.

As of the date of this Prospectus, also 834 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 from 2008 to 2011, for total amounts claimed equal to around Euro 654 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.

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. As at the date of this Prospectus, the residual *petitum* claimed by complainants who did not institute any judicial proceedings is equal to around Euro 591 million.

In addition, there were also 53 threatened litigations relating to the 2014-2015 capital increases for a total requested amount equal to approximately Euro 16 million (and, consequently, as at 30 September 2018, the overall requested amount is approximately equal to Euro 606 million).

As at 30 September 2018, the overall *petitum* in relation to civil proceedings of the Group is equal to Euro 4,555 million of which approximately Euro 3,373 million relating to the proceedings for the ordinary activities of the Issuer, approximately Euro 764 million for the civil proceedings relating to the suits brought by the shareholders in the context of 2008, 2011, 2014 and 2015 capital increases of the Issuer, approximately Euro 606 million in relation to threatened litigations brought against the Issuer relating to the same capital increase transactions and approximately Euro 118 million with respect to requests brought by the civil claimants, where quantified, relating to criminal proceedings no. 29634/14 and no. 955/16 which the Issuer is part of. The overall *petitum* for tax proceedings of the Group is equal to approximately Euro 120 million for taxes and sanctions while the overall *petitum* relating to the labour proceedings is equal to Euro 113.9 million (including the labour proceedings brought by certain employees of Fruendo S.r.l.).

In light of the estimates made on the risks of an adverse outcome in the aforementioned proceedings, as at 30 September 2018, "legal disputes" included under the item "provision for risks and charges", amount to Euro 574.3 million, comprising claw-backs of Euro61.9 million and civil disputes of Euro 512.4 million. Furthermore, as at the same date, in addition to the above, the "provision for risks and charges" includes tax disputes for Euro 33 million and labour disputes for Euro 34.4 million (inclusive also of the legal proceedings initiated by the employees of Fruendo S.r.l., for the description of which, please see "Labour disputes" of this Prospectus).

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.

In particular, for further information relating to the methodology used to account allocations into the "provision for risks and charges" with respect to civil and criminal legal proceedings, including threatened litigations, relating to the purchase of securities issued in connection with the capital increase transactions of 2008, 2011, 2014 and 2015, and/or in connection with trading activities based on the allegedly inaccurate disclosure contained in prospectuses and/or

financial statements and/or price sensitive information disseminated by BMPS from 2008 to 2015, reference is made to the press release published on the Issuer's website https://www.gruppomps.it/media-e-news/comunicati/comunicato-stampa-20181228.html on 28 December 2018 which is incorporated by reference to the Prospectus.

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 impacts, 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 potential negative impacts 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 its 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 No. 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 No. 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 No. 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 No. 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 joined the proceedings as civil plaintiff 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 Preliminary Hearing Judge ("**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, 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 No. 231/2001, while against BMPS, the civil claims for damages proposed in respect of the liability of the entity pursuant to Legislative Decree No. 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.

(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 (No. 955/2016) 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 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 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 (No. 29634/2014) 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 No. 231/2001.

With the plea bargain, upheld by the PHJ 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. As of the date of this Prospectus, civil plaintiffs who appeared against the Bank in the mentioned proceedings are around 1,243 and the overall petitum, where quantified, was equal to Euro 42 million.

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 abovementioned 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, Mr. Viola and Mr. 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.

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 argued that the request for the referral of the trial for his client was 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 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 – which 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.

At the hearing of 24 November 2017, the PHJ issued an order which:

- declared null and void request for the referral of the trial relating to Mr. Salvadori;
- decided for the fragmentation of the relevant position in the main proceedings (against Mr. Viola and Mr. Profumo and the Bank) in relation to the accusation relating to the crime provided for by article 185 of the Consolidated Finance Act;
- reserved to decide over the claim relating to the territorial competence after the conclusions of the public prosecutor.

The public prosecutor served the notice of conclusion of investigation to Mr. Salvadori in relation to the crime provided by for article 185 of the Consolidated Finance Act and filed the (new) request for the referral of the trial relating to Mr. Salvadori for this crime and finally requested a (new) preliminary hearing (for the crime of market manipulation).

At the hearing of 9 February 2018, the PHJ called for the proceedings relating to Mr. Salvadori following the separation of the proceedings relating to the crime provided for by article 185 of the Consolidated Finance Act decided at the previous hearing.

The damaged parties admitted to the proceedings have summoned against BMPS for his civil liability.

Following the formalisation of the entering appearance of the Issuer, the public prosecutor asked for the issuing of a judgement not to proceed on the grounds that there is no crime, or on the grounds that the fact is not qualified as crime in relation to the different counts filed. Following the hearing, the timetable of the proceedings had been scheduled for 13, 20 and 27 April 2018 in order to continue the discussion and potentially issue the order closing the preliminary hearing. Following the preliminary hearing, the PHJ noted that there were no grounds for issuing a judgement not to proceed and decided for the referral to trial of Mr. Viola, Mr. Profumo, Mr. Salvadori and BMPS (indicted entity pursuant to Legislative Decree No. 231/2001).

At the hearing held on 17 July 2018 2,243 civil claimants joined in the proceedings. Some of them formally asked that the Bank be summoned as entity liable to pay for damages, while most of the defending counsels merely requested that their clients, by appearing before the Court, benefit from their participation in the proceedings. Some civil claimants joined in the proceedings against the Bank seeking a declaration of liability under Legislative Decree No. 231/2001. At the end of the hearing, the Court adjourned the case to the hearings of 16 October 2018, 6 November 2018, 13 November 2018 and 19 November 2018.

The hearing scheduled to discuss the civil actions brought as part of criminal proceedings was duly held on 16 October 2018. 2,243 civil claimants had joined in the proceedings (in addition to the initial 304) already during the previous hearing held on 17 July 2018, plus a further 165, for a total number of more than 2,700 civil claimants. The defendants' and the Bank's counsels have claimed that these civil claimants have joined in the proceedings beyond expiry of the relevant terms.

At the hearing held on 6 November 2018, the Panel declared the exclusion from the proceeding of certain civil parties that, consequently, amounted to 2,272, ordering the extension of the proceeding between the Bank and the new civil plaintiffs admitted without further formalities and rejecting the request for joining the proceedings by CONSOB, Bank of Italy and Ernst & Young as civil responsibles.

By order issued at the hearing held on 19 November 2018, the Court rejected the claim for lack of territorial competence previously raised by the defending counsels and, consequently, the discussion of the case started and the next hearing has been scheduled on 18 March 2019, reserving a decision with respect to the request of a conservative seizure against Mr. Profumo and Mr. Viola raised by certain parties.

The petitum relating to this proceeding, where quantified in connection with the filing of damaged civil parties, was approximately equal to Euro 76 million.

In respect of these criminal proceedings (no. 955/2016), during the meeting held on 13 July 2018 the board of directors of the Bank considered that, for the time being, none of the relevant conditions has been met to lodge a claim for damages under civil law against the former Chairman of the board of directors, Mr. Alessandro Profumo and the former Managing Director, Mr. Fabrizio Viola.

In its decision, the board of directors has taken into account all available elements, with the sole aim to pursue the Bank's interests and safeguard its assets, considering more in detail that:

(i) the discussion of the case following committal for trial will be an appropriate opportunity to assess, as part of an adversarial procedure, the conduct of the top management in respect of events (*i.e.* how the Alexandria and Santorini transactions have been accounted for) which regards the past of the Bank and which, in light of the settlement agreements executed by the former directors with Nomura and Deutsche Bank, have no current impact on the Banks' accounts;

(ii) furthermore, the Bank has been involved in the same criminal proceedings for both third party liability and liability under Legislative Decree No. 231/2001. The latter is a type of liability in respect of which the Court of Milan itself has excluded in the past that the same party may also join a civil action. Hence, the Bank may monitor the progress of the discussion, gathering useful elements for its decision, and at the same time present the necessary arguments in order to safeguard its assets;

(iii) should any issues arise from the evidence gathering phase, and/or from the autonomous investigations already started by the Bank and currently in progress, confirming that the defendants are liable (in addition to the fact that the Bank has actually suffered a measurable loss), such issues might be relied upon to propose to the shareholders' meeting to lodge a claim for damages under civil law *vis-à-vis* the defendants.

The Bank has however reserved the right to take any and all action to safeguard its assets and interests.

(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, found that the 2014 consolidated and individual financial statements and the semi-annual report as at 30 June 2015 were not compliant with standard set out by 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 Mr. Baldassarri and other individuals, certain managers of the Bank and the founding partners of the Enigma group, were 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.

At the hearing of 6 March 2018, the Court, having considered not grounded the aggravating circumstance of the internationality, issued a judgment not to proceed because of the statute of limitation of the crime in relation to the count relating to the financial transaction carried out by Lambda Securities S.A.. Therefore, the proceedings will continue only in relation to the facts relating to the first count (financial transaction carried out by Enigma). The next hearing, scheduled for 27 March will examine the other preliminary questions, such as the lack of validity of certain investigation acts.

At this hearing the defence counsels, having considered not grounded the aggravating circumstance also in relation to Enigma, asked the immediate issuing of judgment not to proceed.

At the hearing of 10 April, the Court rejected the counterclaim relating to the statute of limitation of the count relating to the financial transaction carried out by Enigma.

The requests for evidences have been filed. At the hearing of 8 May some witnesses of the damaged parties have been examined. The proceedings have been adjourned for the examination of the witnesses of the public prosecutor.

As of the date of this Prospectus the preparatory phase is pending and other witnesses will be examined by the public prosecutor.

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 Consolidated 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 Consolidated Banking Act);

(c) to the abovementioned members of the Board of Statutory Auditors for deficiencies in internal controls (article 53, subsection 1, lett. b) and 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.

(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).

(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.

CONSOB's sanctioning procedure

(A) *CONSOB's sanctioning procedure for irregularities in the drafting of the prospectus relating to the 2008 capital increase*

By resolution no. 18885 of 17 April 2014, CONSOB completed 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 and imposed administrative monetary sanctions for an amount equal to Euro 450.000 to the *pro tempore* directors and supervisory auditors of the Bank, allocated among each individual on the basis of the office held within the Bank.

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.

The Bank did not appeal against the sanctioning measure and paid it up in its capacity as joint liable party.

(B) *CONSOB's sanctioning procedure for possible irregularities in the drafting of the prospectus relating to the 2011 capital increase*

By resolution no. 18886 of 18 April 2013, CONSOB completed 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 and imposed administrative monetary sanctions for an amount equal to Euro 700,000 to the *pro tempore* directors and supervisory auditors of the Bank, allocated among each individual on the basis of the office held within the Bank.

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 – by way of a resolution of 7 May 2013 adopted pursuant to articles 53 and 67 of TUB – 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.

The Bank did not appeal against the sanctioning measure and paid in its capacity as joint liable party.

(C) *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*

By resolution no. 18924 of 21 May 2014, CONSOB completed 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 and imposed 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 did not appeal against the sanctioning measure and paid in its capacity as a joint liable party.

(D) *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 by way of resolution No. 18951on 18 June 2014 completed 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 concerned 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 No. 231/2001.

With the above mentioned resolution, CONSOB concluded the sanctioning procedure pursuant to article 187-*ter* of the Consolidated Finance Act, against the above-mentioned three persons imposing Euro 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 and the Bank did not appeal against such decision.

(E) *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.

(F) *CONSOB's sanctioning procedure for violation of article 149, subsection 3, of the Consolidated Finance Act*

By resolution no. 19390 of 11 September 2015, 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 organisational irregularities found in 2010 subsequent to verifications carried out by the internal audit function in the Bank's treasury finance process 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.

(G) *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*

By resolution no. 20344 of 15 March 2018, CONSOB completed a sanctioning procedure against Giuseppe Mussari, Antonio Vigni, Gian Luca Baldassarri, Daniele Pirondini and another manager of the Bank relating to 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 sanctioned.

The Bank was 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.

As at the date of this Prospectus CONSOB concluded the sanctioning procedure pursuant to Article 187-*ter* of the Consolidated Finance Act imposing to the Bank itself the payment of Euro 700,000 and, in its quality of jointly liable legal person pursuant to Article 6, subsection 3, of Law no. 689/1981 and Article 187-*quinquies* of the Consolidated Finance Act, together with Mr. Giuseppe Mussari, Mr. Antonio Vigni, Mr. Daniele Pirondini and another employee of the Bank, the payment of Euro 800,000.

The Bank did not appeal against the sanctioning measure and paid in its capacity as a joint liable party.

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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.

The claims for the request of payment brought against the individuals sanctioned who did not benefit of the aforementioned suspension (Mr. Giuseppe Mussari, Mr. Antonio Vigni, Mr. Gianluca Baldassari), there have been challenges by such individuals. In such context, the judges expressed a common position related to resolving upon the suspension of the proceedings until the decision of the appeal proceedings brought by the sanctioned individuals.

These activities and the relating case law could influence the length of the proceedings and limit the chance of recovery.

As to the individuals who benefitted from the suspension of the proceedings in relation to the claim for the request of payment and who filed the relevant challenges, several proceedings are still pending.

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 Tutela 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 AG, on 19 December 2013, a settlement agreement was reached between the Bank and Deutsche Bank AG regarding, inter alia, also the claim for damages. It is worth noting that this settlement

agreement is limited to the internal liability share attributable to Deutsche Bank AG. In the action the Bank specified that, as a result of the transaction with Deutsche Bank AG, 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 AG.

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 which was concluded on 9 January 2018 with a judgment ordering the counterparty to pay an amount of Euro 50 million plus burdens provided by law.

It is worth noting that Nomura, at the same date – but after the institution of the abovementioned 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 promoted the social responsibility action, authorized in the past by the shareholders' meeting, by starting a new civil proceeding, which is now pending before the Court of Florence.

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 AG, 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.

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. Following the technical appraisal, the judge scheduled the hearing for the specification of the final conclusion on 18 July 2019, inviting the parties to refer to the findings of the technical appraisal.

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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 2008, 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 the Courts some civil plaintiffs were excluded. As of the date of this Prospectus, civil plaintiffs that appeared against the Bank were in aggregate around 1,243.

As at the date of the Prospectus, 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. However, also with the support of its experts, the Bank considers the overall amount reserved for the proceedings to be in line with its internal policies.

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 abovementioned 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

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 Prospectus, have filed no. 30 claims

for damages before the different Courts. 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. The overall petitum of the abovementioned proceedings amounts to around Euro 764 million.

As at the date of this Prospectus, various claims have been brought by investors individually, through consumer associations or legal advisers (834, of which 124 intervened in the proceedings instituted by Marangoni Arnaldo and described below) for a total of around Euro 654 million of the claimed amount, where quantified, referred to alleged losses associated with the share capital transaction, alleged inaccuracy of the information contained in the prospectuses and/or financial statements and/or the price sensitive information given by BMPS from 2008 to 2011 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. As at the date of this Prospectus, the amount of the residual *petitum* claimed by plaintiffs who did not bring legal actions is equal to around Euro 591 million.

In addition, as at 30 September 2018, there were also 53 threatened litigations relating to the capital increase 2014-2015 for an amount requested equal to approximately Euro 16 million and, therefore, overall equal to Euro 606 million.

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Please find below a description of the four most relevant disputes brought by shareholders and/or investors of the Bank, in relation to which the aggregate *petita* is equal to around Euro 688 million.

(i) *Legal dispute Banca Monte dei Paschi di Siena S.p.A./Portatori dei Titoli FRESH 2008.*

Certain holders of FRESH 2008 securities (for the description of which, please see "Major Events" –"FRESH 2008" of this Prospectus) expiring in 2099 summoned BMPS, Mitsubishi UFJ Investors Services & Banking Luxembourg S.A. (which replaced the bank issuing the debenture loan Bank of New York Mellon Luxembourg), the English company J.P. Morgan Securities Ltd. (currently J.P. Morgan Securities plc) and the American company J.P. Morgan Chase Bank N.A. (which entered into a swap agreement with the debenture loan issurer) before the Court of Luxembourg asking the court to ascertain that the Burden Sharing Decree does not apply to FRESH 2008 securities' holders and, consequently, to declare that said bonds cannot be forcibly converted into shares, and to declare that these bonds shall continue to remain valid and effective in accordance with the terms and conditions for the issue thereof, as these are governed by the Luxembourg Law, and finally asking the court to declare that, without the conversion of FRESH 2008 securities, BMPS is not entitled to obtain from JP Morgan the payment of Euro 49.9 million to the detriment of FRESH 2008 securities' holders. The Court of Luxembourg has not yet confirmed the dates of the hearings.

For the sake of completeness, it should be noted that, following the commencement of said proceedings, on 19 April 2018, the Bank filed an action before the Court of Milan against J.P. Morgan Securities Ltd (currently J. P. Morgan Securities plc) and J.P. Morgan Chase Bank N.A. London Branch as well as the representative of FRESH 2008 securities' holders and Mitsubishi Investors Services & Banking (Luxembourg) S.A. asking the court to ascertain that the Italian court has sole jurisdiction to decide on the usufruct/life interest agreement and company swap agreement entered into by the Bank with the first two defendants within the scope of the 2008 capital increase. Consequently, the Bank asked the court: (i) to ascertain the ineffectiveness of the usufruct/life interest agreement and company swap agreement which provide for payment obligations vis-à-vis JP Morgan Securities Ltd (currently J. P. Morgan Securities plc) and J.P. Morgan Chase Bank N.A. after the entry into force of Decree 237; (ii) to ascertain that the usufruct/life interest agreement is ineffective and/or has been terminated and/or has expired or, subordinately; and (iii) to ascertain that the usufruct/life interest agreement has been terminated due to the capital deficiency event of 30 June 2017. The first hearing was held on 18 December 2018 and the Judge, deeming existing the prejudicial issue raised by the defendants in relation to the jurisdiction and considered the existence of a dispute with the same petitum and legal issue pending before the Court of Luxembourg, has granted the parties time limits to replicate against the ritual objections and has adjourned the hearing to 16 April 2019 to discuss the controversial issue.

(ii) *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 69 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 pecuniary and non-pecuniary damages for a *petitum* equal to around Euro 97 million (*petitum* then decreased to around Euro 89 million).

On 25 January 2018, the Judge rejected the counterclaims on the preliminary questions, postponing the proceedings to 13 February 2018. At the hearing the Issuer filed a reservation to appeal the non definitive judgment of the Court of Milan and the Judge postponed the proceedings to the hearing to be held on 18 December 2018. At the hearing, the Court reserved its decision on the evidence.

(iii) *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 - then determined as 103.4 million during the trial - 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 determined during the trial. On the hearing of 12 October 2017, the judge reserved his position in relation to the preliminary requests.

Following the hearing held on 12 October 2017 the judge resolved upon a technical appraisal and the relevant technical operations started on 30 October 2018. The hearing has been postponed to 23 May 2019 for the technical appraisal.

(iv) *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 - then determined as Euro 61.4 million during the trial - 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 determined during the trial. During the hearing held on 13 March 2018 the Court reserved its position in relation to the admission of preliminary evidence. The hearing set for 13 March 2018, was then postponed to 6 December 2018 for the admission of preliminary evidence and postponed to a hearing on 5 March 2019 the discussion of the exception for the expiration of time objection filed by the Bank and aimed at obtaining the authorisation to produce as evidence the CONSOB note dated June 2017 on the effectiveness of *pro-forma*.

(v) *Dispute Banca Monte dei Paschi di Siena S.p.A./ Alken Fund Sicav and Alken Luxembourg S.A.*

The counterparties (the "*Funds*") with a writ of summons notified on 22 November 2017 filed a suit before the Court of Milan against the Issuer, Nomura International, Giuseppe Mussari, Antonio Vigni, Alessandro Profumo, Fabrizio Viola and Paolo Salvadori asking to ascertain and declare: (i) an alleged liability of BMPS pursuant to article 94 of the Consolidated Finance Act and for the conduct of Mussari, Vigni, Profumo and Viola pursuant to article 2395 of the Italian Civil Code for the misconducts made with respect to the plaintiffs; (ii) an alleged liability of Mussari and Vigni in relation to the investments made by the Funds in 2012 on the basis of untrue information; (iii) an alleged liability of Viola, Profumo and Salvadori in relation to the investments made by the Funds after 2012 and (iv) an alleged liability of Nomura

pursuant to article 2043 of the Italian Civil Code and as a consequence to condemn jointly BMPS and Nomura to reimburse the material damages equal to Euro 423.9 million to Alken Funds Sicav and Euro 10 million for minor management fees and reputational damages to the management company of Alken Luxembourg S.A. and Mussari and Vigni, jointly with BMPS and Nomura, for the damages arising out from the investments made in 2012 and Viola, Profumo and Salvadori, jointly with BMPS and Nomura, for the damages following 2012. The counterparties requested also to condemn the defendants to reimburse the non-material damages, following the determination of the crime of false corporate communications.

The first hearing, initially scheduled for 18 September 2018, has been deferred to 11 December 2018, and the Issuer entered an appearance within the established deadline and submitted its defence arguments. It is to be noted that three natural persons have entered an appearance with separate statements of defence seeking damages for a total amount of approximately Euro 0.7 million. At the hearing held on 11 December 2018, the Court reserved its decision on the prejudicial exceptions raised by the parties. The Court, lifting its reservation and in acceptance of the objections raised by all the defendants, declared the summons of Alken null and void due to the failure to specify the dates on which shares have been purchased, granting the claimants time limits to complete the claims within 11 January 2019. Conversely, the Court considered Alken's claims raised in connection with the alleged incorrect accounting of the receivables sufficiently specific and rejected the objection of invalidity relating to the appearance documents. The first hearing, therefore, has been deferred to 30 January 2019.

(vi) *Dispute Banca Monte dei Paschi di Siena S.p.A. / Bentivoglio Roberto + 3*

By writ of summons served on 15 November 2017 four natural persons, in their capacity as shareholders of BMPS, summoned the Bank and two other banks (also parties to the criminal proceedings) before the Court of Milan, seeking that the defendants be jointly ordered to pay compensation for damages allegedly suffered and amounting to Euro 21.5 million for financial damages and Euro 0.9 million for non-financial damages.

In particular, based on the information provided by the Bank as of 6 February 2013, and the facts and accusations made in criminal proceedings before the Court of Milan against former representatives of the Bank and the other defendants (proceeding from which they have been stricken off as civil parties), the plaintiffs claimed compensation for the financial damage arising from the depreciation in value of the BMPS shares they possessed as of 31 December 2007 compared to the value of the shares as at 6 February 2013, the date on which the statement reporting the presence of errors in the Bank's financial statements for the previous financial years was published.

The parties raised such objections pursuant to articles 2049 and 2622 of the Italian Civil Code, for misleading company statements and other offences committed by the defendants' executives and for offences punishable under Legislative Decree 231/2001. The plaintiffs also claimed non-financial damages under article 185 of the Italian Criminal Code and 2043 of the Italian Civil Code. The hearing, initially scheduled on 10 April 2018, was held on 11 September 2018. The Bank entered an appearance within the established deadline objecting to plaintiff's claims. The next hearing was scheduled for 15 January 2019.

Disputes relating to securities subject to the Burden Sharing

As of the date of this Prospectus, 64 claims have been filed by former holders of subordinated bonds subject to Burden Sharing for an overall petitum of approximately Euro 17 million.

It should be highlighted that, for part of the litigation underway, the plaintiffs are no longer the holders of the securities as they sold the securities prior to the entry into force of Decree 237. It should also be stressed that the opposing parties' objections are focused on the alleged lack of any notice and/or however on the breach of the specific industry legislation (Consolidated Finance Act and its implementing regulations) exactly as in any other "similar" case covering financial matters commenced against the Bank. Indeed, the plaintiffs claimed occurred misselling, i.e. distribution of the above financial instruments in breach of the Consolidated Finance Act (and its implementing regulations), as well as in breach of the general principles of fairness, transparency and diligence.

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 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 reform of article 120 of the Consolidated 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 capitalisation (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).

As previously highlighted, against the estimates made regarding the risk of losing the judgments referred to in this paragraph, the provisions made for legal disputes described herein fall within the overall provision for risks and charges highlighted above.

Civil disputes arising in connection with the ordinary business of the Issuer

Please find below the most relevant proceedings in terms of *petitum* and relating state of the case.

(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 and 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 the Bank, in its capacity as an indirect shareholder and a member of a shareholders' agreement of the controlling entity, about having a controlling and coordinating position over it and having adopted such 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, to 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 it was 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 environmental damage 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 of SNIA S.p.A. 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 of SNIA S.p.A. 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 another amount established during the trial, 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 another amount established during the trial, 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 were 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 was set for 20 June 2018 for closing arguments. On 20 June 2018, the trial was postponed to 23 January 2019. As at the date of this Prospectus, the Bank authorised (but not yet formalised) a settlement agreement which provides for the abandonment of the legal action against the Bank and the compensation of the expenses.

For the sake of completeness, it is to be noted that 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, as of the date of this Prospectus, 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. With such claim it has been requested to

condemn jointly the defendants, proportionally with reference to their conducts. The defence of the Issuer is that the bad financial situation of Fatrotek S.r.l. justified the actions taken by the Issuer. The hearing was scheduled for 31 May 2018 where the expert nominated by the Judge was to be sworn in.

During the hearing held on 31 May 2018, the Court reserved to decide over several procedural issues of the defendants preliminary to the expert witness' appointment and swearing. On 5 June 2018, the company was declared bankrupt. The Court scheduled the hearing on 7 December 2018 for the appointment of the expert witness. Pending the proceedings, Fatrotek S.r.l. bankruptcy receiver rejoined the proceedings which will continue at the aforementioned hearing.

(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 complained 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 defence of the Issuer has been structured with a number of arguments based on both facts and law provisions and aimed at highlighting the lack of grounds of the claims made by the bankruptcy procedure due to the absence of any link between the actions that brought to the default and the conduct of the Bank.

During the course of the technical consultancy requested by the Court the claims of the counterparty, aiming at demonstrating the link between the capital increase and the subsequent actions that would have made the insolvency worse – and where the Issuer had operated as a mere performer – have been repeatedly challenged by the technical consultant of the Bank.

During the official technical consultancy, the consultant appointed by the Court accepted almost all the arguments raised by the Bank and highlighted that the counterparty's request, in the way it had been made, had no grounds from the perspective of a compensation since no damage had been suffered. As of the date of this Prospectus, the Court is about to rule.

(D) *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 and a tax expert nominated by the judge has been admitted. The *petitum* is equal to Euro 90 million.

BMPS duly appeared for trial filing preliminary and prejudicial counterclaims relating to the lack of territorial competence and lack of active legitimacy and, in the merit, asking for the claims brought by the plaintiff to be rejected on the grounds that were inadmissible and/or not grounded, and thirdly and on a subordination basis, the reduction of the potential condemn to reimburse, on the basis of the different degree of negligence, pursuant to article 2055 second paragraph of the Italian Civil Code.

The next hearing will be held on 14 February 2019 also to examine the technical expertise.

(E) <u>*Civil disputes instituted by Riscossione Sicilia S.p.A. and the Assessorato of Economy of Sicily before the Courts of Palermo*</u>

By writ of summon dated 15 July 2016, Riscossione Sicilia S.p.A. sued the Bank before the Courts of Palermo for contractual liability seeking the conviction of the Bank to the payment of Euro 106.8 million.

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..

The Bank duly appeared for trial filing a counterclaim against Riscossione Sicilia S.p.A.. As of the date of this Prospectus the proceedings is in the preparatory phase and the Court admitted the technical appraisal which commenced its operations on 4 September 2018. The Court scheduled the next hearing on 18 February 2019.

With the petition filed on 30 November 2016 the BMPS asked the Courts of Palermo to order Riscossione Sicilia S.p.A 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 S.p.A 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. By order dated 26 January 2018, the judge (i) rejected the counterparty requests and (ii) accepted the Bank's request to grant provisional execution of the injunction for the entire amount. At the hearing of 12 June 2018, the judge ordered to join the counterclaim made to the injunction with the aforementioned proceeding and postponed the hearing to 5 November 2018. At the hearing of 5 November 2018, the judge postponed the discussion pursuant to article 281-sexies Italian Civil Procedure Code to 24 September 2019.

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.

On 12 January 2018 the hearing for the discussion was held and on 26 January 2018, the Court rejected the claim for Riscossione Sicilia S.p.A..

On 10 May 2018, the Regional Department of Economy of Sicily filed an injunction pursuant to article 700 of the Italian Civil Procedure Code against BMPS and Riscossione Sicilia S.p.A. before the Court of Palermo, requesting that BMPS to be prohibited from suspending the concessions in order to allow Riscossione Sicilia S.p.A., in its capacity as tax collecting agent, to transfer the amount equal to approximately Euro 68.6 million to be paid as taxes to the Sicilian Region. The Bank duly appeared for trial and the Court, with an order dated 28 June 2018 rejected the injunction.

On 17 July 2018, the Assessorato of Economy of Sicily notified the Bank of an injunction pursuant to article 2 of Royal Decree No. 639/1910 and an injunction to return the above-mentioned amount of Euro 68.6 million pursuant to article 823 of the Italian Civil Code within 30 days. The Bank challenged such an injunction requesting the suspension of its effectiveness. In this respect, the first hearing has been scheduled on 12 December 2018. The Court, with an order dated 24 August 2018, rejected the request for the suspension, specifying that the injunction can be executed on the money standing to the credit of the account opened by Riscossione Sicilia S.p.A.. Upon the filing of a request by the defendant to sue Riscossione Sicilia S.p.A., the Court of Palermo has deferred the first hearing, initially scheduled on 12 December 2018, to 20 March 2019.

For the sake of completeness, it is to be noted that BMPS has also promoted an administrative trial before the Regional Administrative Court of Sicily – office of Palermo seeking the declaration of nullity and the voidance of the injunction issued by the Assessorato of Economy of Sicily on 17 July 2018 pursuant to article 2 of Royal Decree No. 639/1910.

The appeal aims at challenging such injunction in which is stated that "as alternative, pursuant to article 823, paragraph 2, of the Italian Civil Code, order to Banca Monte dei Paschi di Siena itself (…) to provide, within 30 days from receipt of the present, for returning to the Region of Sicily the amount of Euro 68,573,105.83, plus interest at the rate established by special provisions for late payment in commercial transaction, as required by article 1284, paragraph 4 of the Italian Civil Code".

Following the notification of the appeal on 16 October 2018, BMPS has filed the appeal itself on 12 November 2018 without contextually asking for the scheduling of the hearing (such request may be presented within 12 November 2019).

The Assessorato of Economy of Sicily duly appeared for trial assisted by the government lawyer on 15 November 2018.

(F) *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 *petitum* amounts to around Euro 31.5 million. As of the date of this Prospectus, the Court is about to rule.

(G) *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 8 November 2018.

(H) *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 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

with the relevant hearing scheduled for 22 November 2018. 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.

(J) *Civil dispute instituted by Serventi Micheli Terzilia and Others against Zenith Bankruptcy, BMPS and other credit institutions before the Courts of 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.

(K) *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 3 October 2018. The Court reserved its decision.

(L) *Civil dispute instituted by the receivership of CO.E.STRA. S.p.A. before the Courts of Florence*

On 4 December 2014 CO.E.STRA. S.p.A., within the context of the arrangement with creditors procedures, served a writ of summon to the Bank and the other banks participating in a pool to ascertain and declare their contractual or non-contractual liability in relation to the restructuring agreement signed by CO.E.STRA. S.p.A. on 30 November 2011, with subsequent request for joint liability of the banks with respect to the alleged damages suffered for having caused/worsened the distress of CO.E.STRA. S.p.A., quantified by the latter in Euro 34.6 million.

The order of the judge has been challenged before the Supreme Court on the basis of lack of competence pursuant to article 42 of the Italian Code of Civil Procedure. The hearing was held on 12 April 2018 in private and the Supreme Court referred the proceedings to a public hearing.

As of the date of this Prospectus, the Issuer is waiting for the judgment to be notified by the Court.

(M) *Action brought by BMPS before the Courts of Rome against CODACONS et alios.*

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 argument, on 17 January 2018.

While proceedings were pending, an agreement was entered into between the Bank, on the one hand, and CODACONS and its legal representative, on the other hand, for the mutual waiver of the claims lodged as part of the proceedings as well as the waiver by CODACONS and its legal representative of any claim lodged against the Bank before any civil and criminal judicial authority. The proceedings will continue between the Bank and the Association's external Advisor, originally summoned along with the Association.

By way of a sentence filed on 12 December 2018, the Court partially upheld the requests made by the Bank against the consultant and rejected the counterclaim of the latter.

(N) *Civil proceedings commenced by Lucchini S.p.A. in Amministrazione Straordinaria before the Court of Milan vis-à-vis the Bank and other 11 credit institutions and companies.*

By writ of summons served on 23 March 2018 the Extraordinary Administration of Lucchini S.p.A. summoned the Bank and 11 other banks and companies before the Court of Milan, asking that the defendants be jointly sentenced to pay for the damage allegedly suffered and quantified in approximately Euro 350.5 million as main claim, and approximately Euro 261.2 million as subordinate claim.

The Extraordinary Administration's main claim regards the damages caused by the delayed opening of the company's Extraordinary Administration procedure as well as those related to the amounts received by the defendants pursuant to a restructuring agreement. In summary, Lucchini contends that the defendants' liability arises from said restructuring agreement entered into between the parties on December 2011, which, according to the claimant, allowed the contracting parties on the one hand to hide the actual financial distress of the Company, preventing – or rather delaying – the opening of insolvency proceedings, and on the other, to unlawfully interfere with the management of the company's business, which qualifies as an abuse of management and coordination powers under articles 2497 and 2497 *sexies* of the Italian Civil Procedure Code. The Extraordinary Administration claims that the Banks are liable, not only in respect of said abuse of management and coordination powers, but also in their capacity as de facto directors and for the activities performed and breaches committed by the directors appointed by the Banks under articles 2055 and 2049 of the Italian Civil Code. At the first hearing held on 30 October 2018, the Bank duly appeared presenting its defence. The proceedings were postponed to 9 April 2019.

(O) *Arbitration promoted by Cinecittà Centro Commerciale S.r.l.*

By deed of appointment of the arbitrator, notified on 21 May 2018, Cinecittà Centro Commerciale S.r.l. ("**Cinecittà**") informed the Bank of its intention to enter into arbitration proceedings under the arbitration clause provided for by Article 27 of the regulatory agreement signed between the parties in 2009, contesting the validity of the derivative contracts executed on the basis of the above mentioned agreement and the validity of a settlement agreement entered into between Cinecittà and the Bank in 2016. As a result of this annulment, based both on the alleged violation of the specific sector regulations for derivatives contracts and for violation of the civil regulations governing contractual relations, including article 1972 of the Italian Civil Code for the transaction, Cinecittà requested the board of arbitrators to order the Bank to pay compensation for the damages suffered by Cinecittà in an amount of not less than Euro 23.1 million plus interest and damages.

At the hearing, held on 25 July 2018, the board assigned the parties time limits for pleadings and adjourned the hearing to 10 December 2018, and then officially to 22 January 2019, for the appearance of the parties.

Complaint to the Board of Statutory Auditors pursuant to article 2408 of the Italian Civil Code

As of the date of this Prospectus, there have not been any complaints pursuant to article 2408 of the Italian Civil Code. In 2017 and in the first months of 2018 certain complaints were filed with the Board of Statutory Auditors (sometimes for information only) which are not material.

The Board in any case has always verified whether such complaints were grounded so as to eventually take action to solve the relevant issues, especially with regard to internal managerial issues or activities of the Bank not considered fully appropriate.

Anti-money laundering

As at the date of this Prospectus 13 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. 231/2007. The overall amount of the opposed monetary sanctions is equal to Euro 4,781,362.88 of which Euro 1,821,343.12 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 analysis 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 Prospectus, 38 administrative proceedings are pending – in addition to the abovementioned proceedings 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 abovementioned administrative proceedings is equal to Euro 100,287,669.29.

Labour disputes

As at the date of this Prospectus the Bank is a party in around 630 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 33.1 million (Euro 34.4 million at consolidated level) as at 30 September 2018.

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 480 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 Prospectus, for one plaintiff a first instance action is pending with a hearing set for 13 March 2019, while for the other 479 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. 143 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 between January 2019 and February 2020. A second instance judgement has instead already occurred for no. 336 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 (the next hearing has been scheduled on 16 January 2019).

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, 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 Prospectus, no. 72 employees (later reduced to 31 after No. 25 renouncements to be ratified in accordance with the law and no. 16 reconciliations) over no. 479 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, the trials were referred for the discussion on 25 January 2019 and 15 February 2019.

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.

The public prosecutor again requested the closure of the proceedings for lack of grounds which has been opposed by the persons who filed the complaints on 2 March 2018, with the relevant hearing scheduled for 11 April 2018. At the hearing of 11 April 2018, scheduled for deciding the request of closure, the Judge for the Preliminary Investigation reserved his decision in the term of 5 days. On 12 April 2018, the Judge for the Preliminary Investigation rejected the opposition filed on 2 March 2018 and declared the closure of the proceedings.

Furthermore, it is worth noting that during 2017, 52 employees of Fruendo S.r.l. (then reduced to 35 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 illecit*o" (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 25 January 2019.

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.

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 Consolidated 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 (TAR). 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.

CONSOB

(B) *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 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 12 December 2018 following the failure 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.

AGCM

(C) *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.

(D) *Proceedings PS 10678 of the AGCM – Violations of the Consumer Code in the sale of investment diamonds*

Between 2013 and the early 2017 BMPS referred customers interested in purchasing investment diamonds to Diamond Private Investment S.p.A. (DPI), pursuant to an agreement entered into in 2012 (similar agreements were entered into by the major Italian banks with DPI itself and other companies in the industry). Such activity led to the execution of agreements for the purchase of investment diamonds between the Bank's customers and DPI.

The activity was suspended in the early 2017, also due to the fact that proceedings were opened by the AGCM against DPI in connection with the alleged breach of the Consumer Code, resulting in unfair commercial practices. Afterwards, in April 2017, the proceedings were also extended, inter alia, to BMPS, and ended up with a sanction against DPI and the banks involved.

By notice dated 26 July 2017, the AGCM held that BMPS and the other bank involved in the proceedings were not liable for one of the two charges; as far as BMPS is concerned, the proceedings continued only in respect of the remaining charge regarding breach of the rules on transparency in contractual and advertising documents.

BMPS had previously entered with DPI into a customer referral agreement, and AGCM held that the bank was actively involved in the promotion and sale of investment diamonds. The proceedings ended with the decision taken by AGCM during the hearing held on 20 September 2017 and notified to the parties on 30 October 2017. AGCM held that the breaches the parties had been charged with had actually been committed, and sentenced BMPS to pay a fine of Euro 2 million. The Bank paid the fine within the relevant terms and challenged the decision before the Administrative Regional Court TAR of Lazio; at the hearing held on 17 October 2018 the Court reserved its decision. Meanwhile, the Bank has taken action to reimburse its customers previously referred to DPI, who have purchased diamonds from the latter and intend to exit from their investment. By a decision published on 14 November 2018, the Regional Administrative Court of Lazio (TAR) rejected the appeal of BMPS and confirmed the AGCM sanctions; the Bank is evaluating the legal grounds of the events to determine the best approach to take.

For the sake of completeness, it is highlighted that, with reference to such events, a criminal proceeding for fraud before the Milan Court is currently pending. In such context the Bank has been notified with an exhibition order and a computer search and seizure warrant.

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 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 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 organisation, management and control model suitable to prevent crimes such as those at hand.

The PHJ at the Court of Forlì ordered the indictment of the defendants, amongst which was BMPS, for profiles of administrative liability of entities. Following a preliminary issue concerning territorial jurisdiction with the Court of Rimini, at the hearing of 1 December 2017 the proceeding was postponed (i) to 5 June 2018 for the discussion of preliminary issues and (ii) to 17 April 2019 for the continuation of the proceeding.

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 abovementioned 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.

Following the preliminary hearing the PHJ recognised that there were no grounds for the issuing of a judgment not to proceed and it has declared the referral to trial of Mr Viola, Mr Profumo and Mr Salvadori and BMPS (as entity indicted pursuant to Legislative Decree 231 of 2001).

At the hearing held on 17 July 2018, 2,243 civil claimants joined in the proceedings. Some of them formally asked that the Bank be summoned as entity liable to pay for damages, while most of the defending counsels merely requested that their clients, by appearing before the Court, benefit from their participation in the proceedings. Some civil claimants joined in the proceedings against the Bank seeking a declaration of liability under Legislative Decree No. 231/2001. At the end of the hearing, the Court adjourned the case to the hearings on 16 October 2018, 6 November 2018, 13 November 2018 and 19 November 2018.

The hearing scheduled to discuss the civil actions brought as part of criminal proceedings was duly held on 16 October 2018, with a total of 2,243 civil claimants which had joined in the proceedings (in addition to the initial 304) already during the previous hearing held on 17 July 2018, plus further 165, for a total number of more than 2,700 civil claimants as at the date of this Prospectus. The defendants' and the Bank's counsels have claimed that the latter have joined in the proceedings beyond expiry of the relevant terms.

At the hearing held on 6 November 2018, the Panel declared the exclusion from the proceeding of certain civil parties that, consequently, amounted to 2,272, ordering the extension of the proceeding between the Bank and the new civil plaintiffs admitted without further formalities and rejecting the request for joining the proceedings by CONSOB, Bank of Italy and Ernst & Young as civil responsibles.

By order issued at the hearing held on 19 November 2018, the Court rejected the claim for lack of competence previously raised by the defending counsels and, consequently, the discussion of the case started and the next hearing has been scheduled on 18 March 2019, reserving a decision with respect to the request of a conservative seizure against Mr. Profumo and Mr. Viola raised by certain parties.

The petitum relating to this proceeding, where quantified in connection with the filing of damaged civil parties, was approximately equal to Euro 76 million.

Tax disputes

The Bank and the main Group companies are involved in a number of tax disputes. As at the date of this 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 (approximately Euro 10 million) and are guarded by adequate allocations to the overall provisions 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 for which there are no proceedings pending.

(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 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; and (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. In respect of financial year 2006, the proceedings is currently pending before the Supreme Court following the challenge of the judgment pursuant to which the Regional Tax Committee of Lombardia upheld the first instance judgment save for the exception relating to the challenge for wrongful withholding of costs equal to approximately Euro 2.7 million. In relation to financial years 2007 and 2008, the proceedings following the appeal lodged by the Bank against the negative ruling of the Provincial Tax Committee of Lombardy of 21 December 2017 (which upheld the appeal of the Regional Tax Office against the first instance judgment favourable to the bank), is still pending before the Supreme Court.

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 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.

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With the exception of the foregoing, during the 12 months preceding the date of this 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 14 members. Each member of the board of directors meets the requirements prescribed by the BMPS's 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.

Board of Directors

The board of directors was appointed by the ordinary shareholders' meeting of 18 December 2017 and such appointment will expire on the date of the shareholders' meeting approving the financial statements for the year ending on 31 December 2019.

The board of directors is currently made up as follows.

Name	Position	Date of birth	Position held
Stefania Bariatti (*)	Chair	28 October 1956	Vice President of the Board of Directors of SIAS S.p.A.
			Sole Director of Canova Guerrazzi s.s.
			Vice President of the Italian Banking Association
Antonino Turicchi	deputy chair	13 March 1965	Advisor to Autostrade per l'Italia S.p.A.
			Director of Leonardo S.p.A.
			Chair of the Board of Directors of STMicroelectronics Holding N.V.
			Manager of Direzione VII – Finanze e privatizzazioni del Dipartimento del Tesoro del Ministero dell'Economia e delle Finanze
Marco Morelli	chief executive officer	08 December 1961	Director of the Italian Banking Association
			Vice President of the Board of Directors of Fondazione Onlus Gino Rigoldi

Name	Position	Date of birth	Position held
Maria Elena Cappello (**)	Director	24 July 1968	Director and member of the internal audit and risks committee of Prysmian S.p.A. Director and Chair of the Remuneration and Designation committee of Saipem S.p.A. Director of FEEM Fondazione Eni Enrico Mattei Director of TIM S.p.A.
Marco Giorgino (**)	Director	11 December 1969	Chair of the Board of Directors of Vedogreen S.r.l. Director of REAL STEP SICAF S.p.A. Director of Luxottica S.p.A. Statutory Auditor of Corsair Linda IV (Italy) S.p.A. Statutory Auditor of RGI S.p.A.
Fiorella Kostoris (**)	Director	5 May 1945	
Roberto Lancellotti (**)	Director	21 July 1964	Director of Datalogic S.p.A.
Nicola Maione (**)	Director	9 December 1971	Director and chair of control, risk and related party committee of ENAV S.p.A.
Stefania Petruccioli (**)	Director	5 July 1967	Director of Dè Longhi S.p.A. Director of Interpump Group S.p.A. Director of RCS Media Group S.p.A. Director of Comecer S.p.A. Director of Newton S.r.l.

Name	Position	Date of birth	Position held
			Director of F2A S.p.A. Director of Italian Banking Association
Salvatore Fernando Piazzolla (*)	Director	5 March 1953	
Angelo Riccaboni (**)	Director	24 July 1959	Chair of Fundacion PRIMA Chair of Fondazione Sclavo Director of Fondazione Smith Kline Chair of the Steering committee of Santa Chaira Lab Innovation Center of University of Siena
Michele Santoro (**)	Director	28 March 1955	
Giorgio Valerio (**)	Director	13 July 1966	Director and Member of the control and risk committee, the nominating and compensation committee and the Related Party committee of Massimo Zanetti Beverage Group S.p.A. Chair of the Board of Directors of Niuma S.r.l. Director of ALP.I S.p.A. Member of the investments committee of Enovia S.p.A.
Roberta Casali (**) (***)	Director	25 January 1962	Director of Antirion SGR S.p.A.

Notes:

(*) Independent director pursuant to the Consolidated Finance Act.

(**) Independent director pursuant to the Consolidated Finance Act and the Corporate Governance Code of Listed Companies (the "Corporate Governance Code").

(***) Coopted on 12 July 2018 by the board of directors, in place of the board member Giuseppina Capaldo, who resigned on 4 May 2018. Roberta Casali will remain in office until the next Shareholders' Meeting.

Each member of the board of directors must be suitable for carrying out its role. To this extent each member of the board of directors shall meet the requirements prescribed by law and BMPS' by-laws. In particular, in addition to the requirements of integrity (that are the same for all the members), professionalism and independence (that are instead graduated according to the proportionality principle), each director shall meet the requirements of competence and fairness, also in respect of the timeframe needed to fulfil its mandate. Such requirements have been carefully evaluated by the supervisory authorities (the European Central Bank and the Bank of Italy) in accordance with their supervisory provisions and notified to the public pursuant to the Issuers' Regulations and the self-regulatory code.

The members of the board of directors are all domiciled for their position at the Bank's registered office.

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 confirmed by the board of directors on 22 December 2017 (in charge from 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 (in charge from 20 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 him 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 28 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	Position held
Marco Morelli	general manager and Chief Executive Officer	08 December 1961	Director of the Italian Banking Association Vice president of the board of directors of Fondazione Onlus Gino Rigoldi
Giovanni Ametrano	head of performing loan	06 April 1965	Director of MPS Leasing & Factoring S.p.A.
Maurizio Bai	head of network division	23 July 1967	
Giampiero Bergami	chief commercial officer	27 February 1968	Director of Banca Monte Paschi Belgio S.A. Director of Bonfiglioli Riduttori S.p.A.
Vittorio Calvanico	chief operating officer	08 February 1964	Director of MPS Capital Services Banca per le Imprese S.p.A. Director of Ausilia S.r.l.
Pierfrancesco Cocco	chief audit executive	07 June 1954	
Eleonora Cola	head of retail	18 July 1965	Director of Consorzio

			Operativo Gruppo Montepaschi S.c.p.a.
Ilaria Dalla Riva	chief human capital officer	20 November 1970	Director of Wise Dialog Bank – Widiba S.p.A. Director of MPS Capital Services Banca per le Imprese S.p.A. Director of MPS Leasing & Factoring S.p.A. Vice president of the Board of Directors of Consorzio Operativo Gruppo Montepaschi S.c.p.a. Director of CONSEL – Consorzio Elis per la formazione professionale superior S.c.a.r.l. Member of the coordination committee of the Osservatorio Giovani Editori
Fabiano Fossali	head of corporate	22 March 1968	Director of MPS Leasing & Factoring S.p.A.
Fabrizio Leandri	chief lending officer	21 April 1966	
Ettore Minnella	head of operations	18 September 1960	
Andrea Rovellini	chief financial officer	15 February 1959	

Marco Palocci	head of external and institutional relations	02 December 1960	
Riccardo Quagliana	head of group general counsel	04 April 1971	Vice president of Wise Dialog Bank – Widiba S.p.A. Director of MPS Capital Services Banca per le Imprese S.p.A. Director of Conciliatore bancario finanziario
Leonardo Bellucci	chief risk officer	21 February 1974	
Lucia Savarese	head of non-performing loan	30 March 1964	Director of MPS Capital Services banca per le Imprese S.p.A.
Federico Vitto	head of wealth management	14 November 1968	Chair of MPS Fiduciaria S.p.A. Director of AXA MPS Assicurazione Danni S.p.A. Director of AXA MPS Assicurazione Vita S.p.A. Managing director of ASSIOM Forex servizi S.r.l. Director of AXA MPS Financial Designated Activity Company (DAC)
Ettore Carneade	head of compliance area	19 June 1961	

Nicola Massimo Clarelli	chief financial reporting officer	22 October 1971

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 18 December 2017 and such appointment will expire on the shareholders' meeting called to approve the 2019 financial statements.

The following table sets out the members of the Bank's board of statutory auditors:

Name	**Title**	**Position held**
Elena Cenderelli	Chair	chair of the board of statutory auditors of AXA MPS Assicurazioni Vita S.p.A.
		chair of the board of statutory auditors of AXA MPS Assicurazioni Danni S.p.A.
Raffaella Fantini	Auditor	auditor of SO.G.IM S.p.A.
		auditor of ICCAB S.r.l.
		auditor of Ecuador S.p.A.
		auditor of Società Immobiliare Minerva S.r.l.
		auditor of BP Real Estate S.p.A.

		auditor of Coni Servizi S.p.A.
		auditor of Fiesole Musei – Azienda per la gestione e promozione del patrimonio culturale
		auditor of L.P. S.r.l.
Paolo Salvadori	Auditor	chair of the board of statutory auditors of Sevian S.r.l.
		auditor of AXA Italia Servizi S.c.p.a.
		chair of the board of statutory auditors of Italia Due Ponti S.p.A.
		chair of the board of statutory auditors of MA Centro Inossidabili S.p.A.
Daniele Federico Monarca	alternate auditor	auditor of ICM S.p.A.
		director of Blue Financial Communication S.p.A.
		chief executive officer of Pigreco Corporate Finance S.r.l.
		chair of the board of statutory auditors of Advalora S.p.A.
		auditor of Fiera Milano S.p.A.
		director of Il cielo in una stanza S.r.l.
		chair of the board of directors Consaequo Partners S.r.l.

Statutory Auditing

Pursuant to article 27 of the Bank's by-laws, on 29 April 2011 the ordinary shareholders' meeting appointed 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 a specific "Directive of the Group in the context of the compliance with provisions for related parties, affiliated parties and the obligations of bank representative" (the "Directive") setting out the organizational model (principles and responsibilities) adopted by the Group with respect to the process relating to the "compliance with provisions for related parties, affiliated parties and the obligations of bank representative" and, in particular, laying down at the Groups' level the principles and rules related to the conflicts of interest for the Group, without prejudice to the provisions of the Italian Civil Code. The Directive 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 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 inter alia (i) 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, (ii) 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, and refrain from any resolutions in which he or she has a conflict of interest, on their own behalf or on behalf of a third party, pursuant to the applicable legislation.

In addition to requiring compliance with the provisions of article 136 of the Italian Banking Act, article 19 of BMPS's by-laws provides for an obligation of the members of the board of directors to inform the board of directors and the board of statutory auditors of any business in which they are personally involved or which regards entities or companies of which they are directors, statutory auditors or employees (except for companies of the Group) as well as to refrain from any resolutions in which they have a conflict of interest, on their own behalf or on behalf of any third party, pursuant to the applicable legislation. 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 24 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 companies of the Group or of financial conglomerate as well as in which BMPS holds, directly or indirectly, a strategic shareholding.

To the best of BMPS's knowledge and belief, as of the date of this 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 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 shall 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 when they are appointed and on an annual basis.

As prescribed by the corporate governance code and 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 2018 First Half Financial Report, published and available on the Bank's website www.gruppomps.it.

Main Shareholders as at the date of this 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 Prospectus, pursuant to article 93 of the Consolidated Finance Act the Issuer is controlled by the Italian Ministry of Economy and Finance ("MEF"), 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.

CREDIT AND COLLECTION POLICY

Policy for the Granting, Managing and Recovery of Credits

1. PROCEDURE FOR THE GRANTING OF MORTGAGES

Pursuant to article 38 of the Consolidated Banking Act, the Bank of Italy, in compliance with the decisions of the Credit and Savings Interdepartmental Committee (CICR), defines the maximum amount of loans by the identification of such amount with reference to the value of the mortgaged properties or of the cost of works to be executed on such properties, and defines the cases in which loans may be granted when there are prior mortgage registrations.

Accordingly, pursuant to the commercial directives of the Montepaschi Group, the Loan to Value is equal to 80 per cent. of the costs for the construction/restructuring or of the appraised value (*valore di perizia*) of the real estate asset backing the loan.

The 80 per cent. limit for the granting of loans is enhanced to 100 per cent. if the mortgage loan is backed by additional securities such as: bank guarantees (*fideiussioni bancarie*), policies (*polizze fideiussorie*) granted by insurance companies, securities granted by public guarantee funds (*fondi pubblici di garanzia*), security associations on bank loans (*consorzi di garanzia fidi*) and security co-operatives on bank loans (*cooperative di garanzia fidi*), transfers of receivables to the State as well as transfers of annuities (*annualità*) or of subsidies due by the State or public entities (*contributi a carico dello Stato o di enti pubblici*) or pledges over governmental bonds or debentures which have been issued.

If there are any guarantors of additional securities, these guarantors are obviously subject to evaluation as well.

Mortgage loans for the purchase of real estate assets used as a first home are generally mortgaged with a first-ranking mortgage. In any case the existence of prior-ranking mortgages does not prevent the granting of a (supplementary) mortgage loan (*mutuo suppletivo*) **provided that** the principal amount outstanding on the loans, added to the amount of the new mortgage loan, does not exceed 80 per cent. of the value of the real estate asset secured pursuant to the security created under the loan.

Real estate assets subject to registration of the mortgage shall be insured against fire and explosion for an amount equal to the appraised value or to the cost of construction (*ricostruzione a nuovo*) increased by 20 per cent.. Other forms of insurance (such as life insurance on the borrower) are optional.

The procedure for granting mortgage loans (*mutui di credito fondiario*) is carried out using the mortgage loan approval procedure, which allows the entire loans procedure to be followed ending with the final disbursement of funds.

The approval procedure (*iter istruttorio*) consists in a series of phases (requirements) and requires that these are carried out in the following precise order:

(a) Risk-assessment procedure (*istruttoria di rischio*)

(b) Loan Proposal and Approval (*proposta e delibera di fido*)

(c) Technical procedure (*istruttoria tecnica*)

(d) Legal procedure (*istruttoria legale*)

Once the procedure has been completed, the application is submitted to the competent decision-making body for approval.

1.1 *Risk-assessment procedure (Istruttoria di rischio) – Analysis of the solvency of individuals*

The procedure to assess the solvency of the client and of any co-obligors consists in the following phases:

- Examination of negative information
    - Searches with the registry office (*Anagrafe*) for any negative events or irregularities (*anomalie di rapporto*) (also archives)
    - Public database searches for proceedings for non-payment of cheques, promissory notes or drafts (*Protesti*) and any encumbrances (*Pregiudizievoli*)
    - Search of "Non-performing Status" ("*Status Sofferenza*") on the System.

If any of the above events are discovered, the procedure cannot move forward without the intervention of a competent board as indicated by the Law.

- Search of the Central Risk Register
    - Analysis of the relevant data in the Central Risk Register managed by the Bank of Italy to verify the applicant's aggregate debt exposure and any irregular behaviour
    - The analysis is also expanded to include any related guarantees
- Assignment of client risk rating
    - Rating di *Istruttoria* for a new borrower or Integrated Score for a new customer (see paragraph 1.4 below)
    - Credit Bureau Score
    - Combination of the scores on the risk assessment Grid
- Determination of Disposable Income
    - Information on family income obtained from the applicant's pay slips or income tax-returns (*dichiarazione dei redditi*) if the applicant is a subordinate employee1
    - Information on outstanding financial obligations (*impegni finanziari in corso*) and evaluation of the consistency of the declarations with the data obtained from credit data bases
    - Evaluation of the debt to income ratio;

Following the evaluation phase applicants are assigned one of four overall level of quality (High, Medium High, Low, Very Low).

1.2 *Loan Proposal and approval (proposta e delibera di fido)*

The proposal phase consists in the gathering of all the necessary information for the loan description and assessment. The scope of the resolution (*competenza di delibera*) is defined according to the results of the 'Integrated Score' defined by the combination of the demand risk scoring (considering applicant sociological risk and loans features risk) and the affordability scoring (considering applicant capability of revenues, saving and assets growing). In particular, automatic approval is provided if, in addition to a low counterparty risk (High Level of quality), the request is not characterized with any parameters, considered internal risk riser like, for example, the following:

- non resident applicant;
- maximum amount of Euro 200,000;
- negative information received on the Risk-assessment procedure (such as negative credit bureau score, bad loans from the Central Risk Register, etc);
- loan to Value not higher than 80 per cent.;
- the duration of the mortgage loan added to the age of the borrower does not exceed 75 years.

If automatic approval is not feasible, the competent decision-making body is selected according to the rules described in the Law.

1.3 *Technical procedure (istruttoria tecnica) – valuation of the real estate asset*

The procedure continues with the technical and legal valuation of the property backing the loan by means of:

- valuation of the preliminary deed of purchase and sale of the property, related project and estimated budget;
- appraisal of the property (*perizia di stima*) performed by a surveyor appointed by the bank;
- analysis of all the documentation available at the land registry archives.

In particular, starting January 2008, an appraisal (*perizia tecnica*) shall be performed by an independent surveyor for mortgage applications for any purpose. Independent surveyor means a person having the necessary qualifications, skills and experience to perform the appraisal, who has not taken part in the decision-making procedure in relation to the loan and is not involved in monitoring of the loan.

The above appraisal shall be carried out on the basis of the current value (*valore intrinseco*) of the property for which the loan is requested, without having regard to the creditworthiness of the borrower. Exclusively in the case of *mutui fondiari* to be granted to individuals, the above appraisal is performed after approval of the mortgage.

In particular:

(a) *applications for an amount higher than Euro 5,000,000*: the technical procedure and the appraisal will be performed by the bank's surveyor or by a surveyor chosen from the names in the list of the first category (*prima fascia*).

(b) *applications for an amount between Euro 2,500,000 and Euro 5,000,000*: the appraisal shall be made by a surveyor chosen from the names in the list of the first category (*prima fascia*) surveyors (qualified to also carry out mortgages' restrictions and divisions).

(c) *other applications other than those listed in sub-paragraph a) and b) above*: branches of the bank shall directly appoint a reliable local surveyor, chosen from the names in the list available to the Bank, to carry out the property appraisal (*giudizio di stima*) and accordingly to ascertain the value or cost of construction of the properties backing the loan. Such lists are available in the relevant local area.

The appraisal, to be generally completed on the standard forms provided by the Bank, shall be as faithful and complete as possible, in order to allow the reader to understand the property (use and dimensions) and its qualities and deficiencies. The appraisal shall reflect the standard market conditions existing at the date of drafting. The value identified shall not exceed the market value. Clearly, for rented real estate properties, income from relevant agreements shall be taken into consideration in preparing the appraisal.

As for residential real estate assets, the value may be determined, if there is information available on sale prices paid for real estate assets similar to the asset under appraisal, using the comparative approach (*metodo comparativo*) adjusted as deemed appropriate having regard to the morphological features of the asset, to the state of maintenance, to the profitability and to any other factors deemed to be relevant.

Due to breaches to local building regulations (*abusi edilizi*), surveyors are advised to pay careful attention in ascertaining that the assets backing the loan, whether under construction or recently completed, fully comply with the current city-planning regulations (*leggi urbanistiche*).

Technical costs sustained in carrying out the procedure are to be charged to the client. In signing the application form the client undertakes to reimburse all such costs even if the transaction is not executed for any reason.

1.4 ***Legal procedure (istruttoria legale)***

Legal due diligence on the property backing the loan is entrusted to a notary public appointed by the borrower for traditional mortgage loan transactions or by the Bank for active subrogations (article 8 of Law 40/2007). The notary shall, *inter alia*:

- ensure the applicant may enter into the mortgage loan agreement and create a valid charge over the real estate assets offered as security for the mortgage;

- ensure that the borrower or the mortgage guarantor are the sole and exclusive owner of the real estate assets offered as security;

- verify that the relevant properties are free from charges or foreclosures (*trascrizioni ostative* or *iscrizioni passive*) and indicate if any are found;

- Check the description of the properties as prepared by the surveyor to be inserted in the relevant mortgage loan agreement.

In drafting the details of the mortgage agreement and loan disbursement documents, any particular legal situations which may be discovered by the notary during the documentary due diligence (such as successions in relation to which the State sill has privilege with reference to the payment of the relevant tax) will be followed up by the branches with the competent authorities within their Local Area.

2. MANAGEMENT OF MORTGAGES

2.1 *Survey of collections and payment methods*

Unless the contract provides for a pre-amortisation period, amortisation periods for almost all mortgage loans start on the first day of the first period (monthly, quarterly, semi-annually, annually) following the execution of the contract.

Methods of payment of the mortgage loans' instalments are substantially:

- direct debit from the bank account held by the debtor with any branch of the bank (*ordine permanente*);

- direct debit from the bank account held by the debtor with a different bank (*procedura* RID);

- Payment through deposit slip (*Bollettino* MAV).

The client can choose the method of payment.

Near the instalment due date, a notice that the instalment is falling due (*avviso di scadenza della rata*) (MAV standard form) is sent to the domicile of the borrowers that have not selected payment by means of direct debit, inviting them to pay the amount due at any branch of the bank or any other financial institution or any post-office branch by presenting the notice.

2.2 *Monitoring activity*

The client's portfolio of the bank is monitored daily for the purpose of identifying any indicator events of potential riskiness. The presence of irregular events with reference to the client's positions is reported daily and the Branches' roles and structures are involved.

In the case of mortgage loans with overdue and unpaid instalments, or instalments which are unpaid and subject to suspension, the monitoring of such events is mandatory.

2.3 *Management of late payments*

Until the maturity date, the mortgage loan is classified as performing ("*in bonis*").

Following the maturity date, if the instalment has not been paid, such instalment is classified as:

- "Overdue" if it remains unpaid a day after its maturity date;
- "Delinquent" if it remains unpaid ten days after its maturity date.

For the purpose of calculating accrued interest, the default *status* normally runs from the second day following the maturity date of the relevant instalment.

If a due payment is classified as overdue, the mortgage loan remains under the management of the relevant branch, which will contact the client initially by a first telephone call and/or personal contact in order to determine the cause of non-payment urging the regularisation of the position. Simultaneously the branch begins to analyse the causes that led to the delay in payment.

- After 20 days overdue:

the position is managed by a "Credit Monitoring" tool which explicitly allows the tracing of actions for the upgrade and/or regularisation of the position;

- After 30 days overdue:

for the positions managed in the "Retail Industrialised Path" the instalment non payed is sent to an external collection company. the position delinquency starts.

In parallel, an automatic procedure sends reminder letters at specific deadlines: 45 days, 100 days and 150 days.

Credit Monitoring

As to mortgage life management and monitoring of the loan book, the branch network uses the "Credit Monitoring" tool.

The Credit Monitoring process is an effective aid to obtain credit cost reduction by leveraging two main factors:

- identification of high insolvency risk positions ("screening");
- "customer-type differentiated" treatment of positions (dedicated "routing").

Ordinary-risk positions are scanned by a "screening" engine which selects the highest-risk positions on a weekly basis, so as to identify the counterparties bound to become insolvent at a sufficiently early stage. Screening is based on a "performance risk indicator" (so called "*indicatore di rischio andamentale*" or "**IRA**") which factors in, and is reflective of, a set of critical elements including the worsening of certain leading indicators, ratings, information on related counterparties and days past due (with thresholds being differentiated by customer segments and amounts used).

Ordinary-risk positions are selected as higher risk positions:

- if the "IRA" is greater of certain thresholds

or

- if a classification parameter is switched on

or

- after 20 days overdue (7 days in case of Forborne Exposure)

Ordinary-risk positions, reported as higher risk by the "screening" engine, are routed to specific processing queues depending on the type of customer and credit facility involved:

1. a "Path Retail Industrialized" procedure for "Retail Family" and "Small Business" clients: for certain positions of a relatively low amount without sales targets, it is possible to control the recovery process externally by mandating this task to a specialised credit collection bureau managed by Recovery Service (*Servizio Gestione Massiva Crediti Problematici*) inside *Area recupero Crediti*;

2. a "Path Retail Standard" procedure for Retail, Affluent and Private customers (high income Individuals), as well as small-sized businesses with limited exposure which, by reason of their type of exposure, cannot be managed by the external credit collector and need to be followed by the branch;

3. a "Path Corporate" procedure dedicated to corporate customers.

This process cannot be applied to employees and special situation loans.

When the loan is routed to Path Retail Industrialized after 20 days past due, the branch will manage the situation up to other 10 days past due. After this period the relevant branch will transfer the situation to specialised credit collection bureau managed by *Area Recupero Crediti*. If after 120 days the specialised credit collection bureau does not reach its goal, the position will go back to the branch. The branch can choose to manage the position following the PRS procedure or, if the missed payment concerns a potential irregularity in the loan relationship, or the possibility of future missed payments or partial payments of the following instalments, the position is carefully monitored and afterwards is classified as delinquent (as *Inadempienza Probabile*).

The management of delinquent positions has the following possible solutions:

- Demanding immediate payment of all outstanding instalments;

- Agreeing upon an instalment payment scheme *piano di rientro*;

- Restructuring the mortgage loan.

If after a careful evaluation of the loan, the difficulties of the borrower are deemed to be permanent and no longer temporary, the matter is classified as a defaulted loan (*In Sofferenza*) and therefore transferred to Credit Management Area (*Area Recupero Crediti*). Once approval is given to move the matter on to the enforcement phase (*passaggio a contenzioso*), the matter is automatically converted as a defaulted loan in the Central Risk Register.

The definition of a Defaulted loan is the same as the meaning ascribed by the Bank of Italy Supervisory Instructions (*Istruzioni di Vigilanza di Banca d'Italia*) which includes "all cash credits due from parties that are in a state of insolvency, even if the state of insolvency has not been declared by a court, or in substantially equivalent situations".

The Network is entitled to reschedule the amortization plans in case of non-payment which is temporarily not remediable.

3. RECOVERY PROCEDURES

The recovery procedures for loans are carried out by Recovery Management (*Direzione Crediti Non-Performing* DCNP) put in place all the steps, whether by means of judicial channels or extra-judicial channels, which are necessary for recovery of the credit, including the possibility of write-offs or waiving actions against the debtors.

With reference to the portfolios managed by DCNP, DCNP draws up periodical reports related to collection activity; moreover, DCNP makes specific business plans for each loan under management which are subject to internal approval process. Internal auditing can in any case carry out the audits and examinations pertaining to their institutional role with DCNP.

The non-performing loan management consist in these activities:

(a) if there are enforceable assets (*attivi aggredibili*):

- DCNP assesses, studies and takes action for out-of-court recovery;
- DCNP takes suitable legal action to collect amounts due acquiring a security interest over the assets of the debtor/guarantor(s) or petitioning for the bankruptcy of the party, if the latter is subject to bankruptcy.

(b) if there are no enforceable assets DCNP assesses, studies and takes action for out-of-court recovery.

In term of forecast, Direzione Crediti Non-Performing makes specific business plans for each loan with exposure higher than €500,000 under management which are subject to an internal approval process.

For loans with exposure below €500,000 a statistic methodology called LGD (Loss Given Default) is applied.

Both for judicial and extrajudicial activities, Direzione Crediti Non-Performing has the possibility to outsource recovery activity to external company (Juliet); this strategy is normally applied for the 80% of the NPL, maintaining internally the entire control process and any strategic decision.

If despite the above-mentioned actions the credit does not appear recoverable, Direzione Crediti Non-Performing can propose to write it off.

4. ACTIONS TO IMPROVE CREDIT QUALITY

Starting from October 2009, the Credit Department implemented various initiatives in the aim of reviewing and improving the loan management policies at local level. The retail division developed and revised the operational instructions for branch managers who were asked to motivate clients to settle late payments or to adhere to the anti-credit crunch product ("*Combatti la crisi*") in the case of temporary difficulties.

After 30 March 2013 the anti-credit crunch product "*Combatti la crisi*" is not available any more but a suspension, aiming to manage temporary debtor difficulties, can be offered to borrowers by the relative branch who will evaluate the overall position of the borrower. BMPS has acceded to the suspension of credit to retail counterparts in 2015 (*Accordo per la sospensione del credito alle Famiglie*). The agreement runs until the end of 2017.

THE GUARANTOR

Introduction

The Guarantor was incorporated in the Republic of Italy on 8 September 2009 pursuant to Law 130 as a limited liability company with a sole quotaholder (*società a responsabilità limitata con unico socio*) under the name "Meti Finance S.r.l." and changed its name into "MPS Covered Bond S.r.l." and modified its corporate object by the resolution of the meeting of the Guarantor Quotaholders held on 11 March 2010. The Guarantor is registered at the Companies' Registry of Treviso-Belluno under registration number 04323680266. The registered office of the Guarantor is at Conegliano (TV) – Italy - Via V. Alfieri, 1, 31015 and its telephone number is 0039 0438 360926. The Guarantor has no employees and no subsidiaries. The Guarantor's by-laws provides for the termination of the same in 31 December 2100 subject to one or more extensions to be resolved, in accordance with the by-laws, by a Quotaholders's resolution.

Principal Activities

The sole purpose of the Guarantor under the objects clause in its by-laws is the ownership of the Cover Pool and the granting to Bondholders of the Guarantee. From the date of its incorporation the Guarantor has not carried out any business activities nor has incurred in any financial indebtedness other than those incurred in the context of the Programme.

Quota Capital

The outstanding capital of the Guarantor is Euro 10,000.00 divided into quotas as described below. As at the date of this Prospectus, the quotaholders of the Guarantor are as follows:

Quotaholders	Quota
SVM Securitisation Vehicles Management S.r.l.[6]	Euro 1,000.00 (10 per cent. of capital)
Banca Monte dei Paschi di Siena S.p.A.	Euro 9,000.00 (90 per cent. of capital)

The Guarantor has not declared or paid any dividends or, save as otherwise described in this Prospectus, incurred any indebtedness.

Management

Board of Directors

The following table sets out certain information regarding the current members of the Board of Directors of the Guarantor.

[6] Whose 100 per cent. is held by Stichting Cima. Stichting Cima is a Dutch foundation, whose sole director is Intertrust (Netherlands) B.V.

Name	Position	Principal activities performed outside the Guarantor
Franco Cecchi	Chairman of the Boards of Directors and Managing Director	Franco Cecchi
Andrea Fantuz	Director and Managing Director	Andrea Fantuz, Analyst of FISG S.r.l.
Raiola Alessandro	Director and Managing Director	Raiola Alessandro, Banca Monte dei Paschi di Siena S.p.A.

The business address of the Board of Directors of the Guarantor is Via V. Alfieri, 1, 31015 Conegliano (TV), Italy.

Board of Statutory Auditors

Under the Quotaholder's Agrement, the quotaholder's meeting will appoint the controlling body (The Statutory Auditors or the Issuer's Sole Statutory Auditor).

If, at any time, a Board of Statutory Auditors shall be appointed, it shall be composed of three members which shall appointed as follows: one by SVM Securitisation Vehicles Management S.r.l. and two by BMPS (designated one by BMPS and one by SVM Securitisation Vehicles Management S.r.l.). The chairman of the Board of Statutory Auditors shall be one the members appointed by BMPS. The appointment of the Sole Statutory Auditor will be compliant with the Italian legislation.

A Sole Statutory Auditor has been appointed by the quotaholder's meeting.

Conflict of Interest

There are no potential conflicts of interest between any duties of the directors of the Guarantor and their private interests or other duties.

The Quotaholders' Agreement

Pursuant to the term of the Quotaholders' Agreement entered into on or about the date of this Prospectus, between BMPS, SVM Securitisation Vehicles Management S.r.l. and the Representative of the Bondholders, the Quotaholders have agreed, *inter alia*, not to amend the by-laws (*statuto*) of the Guarantor and not to pledge, charge or dispose of the quotas (save as set out below) of the Guarantor without the prior written consent of the Representative of the Bondholders. The Quotaholders' Agreement is governed by, and will be construed in accordance with, Italian law.

Please also see section "*Description of the Programme Documents - The Quotaholders' Agreement*" below.

Financial Statements

The financial year of the Guarantor ends on 31 December of each calendar year.

Mr. Alberto De Luca, enrolled under number 148374 in the register of statutory auditors (*Albo dei Revisori Legal*i) pursuant to Ministerial Decree dated 6.11.2007 (published in the Official Gazette of the Republic of Italy number 92 of 20 November 2007) and enrolled in the National Counsel of Certified Public Accountants (*Consiglio Nazionale dei Dottori Commercialisti e Esperti Contabili*), whose offices are at Via Vittorio Alfieri 1, 31015 Conegliano (Treviso) Italy, has been appointed to perform the audit of the financial statements of the Guarantor for the period between the end of its first financial year (31 December 2009) and the end of its second financial year (31 December 2010).

KPMG S.p.A. has been appointed on 27 April 2011. KPMG S.p.A. has performed the audit of the financial statements of the Guarantor for the period between the year ended on 31 December 2011 and the year ended on 31 December 2012.

EY S.p.A. (now Ernst & Young S.p.A.), with registered office at Via Po 32, 00198, Rome, Italy and authorized and regulated by the MEF and registered on the special register (of auditing firms held by MEF, has been appointed (i) on 17 June 2013 to perform the audit of the financial statements of the Guarantor for the period between the year ended on 31 December 2013 and the year ended on 31 December 2015 and (ii) on 13 April 2016 to perform the audit of the financial statements of the Guarantor for the period between the year ended on 31 December 2016 and the year ended on 31 December 2018.

The Guarantor has not, from the end of its first financial year (31 December 2009), carried out any business activities nor has incurred in any financial indebtedness (other than those incurred in the context of the Programme). Nevertheless, in accordance with Italian law (requiring all companies to approve a balance sheet within a specified period from the end of each financial year), the Guarantor has prepared its financial statements for the period between the end of its first financial year (31 December 2009) and the end of its ninth financial year (31 December 2017).

The financial statement of the Guarantor for the year ended on 31 December 2017 (the end of its ninth financial year), as approved by the meeting of the quotaholders of the Guarantor on 11 April 2018, is incorporated by reference to this prospectus (see section headed "*Documents incorporated by reference*" above).

Montepaschi Group

On 7 May 2010, the Bank of Italy has authorised the purchase by the Issuer of 90 per cent. of the quota capital of the Guarantor. The Guarantor is consolidated in the Montepaschi Group as it is reported in the financial statements as at 31 December 2015. For further information on the Montepaschi Group, please refer to paragraph "*Banca Monte dei Paschi di Siena S.p.A.*" above.

DESCRIPTION OF THE PROGRAMME DOCUMENTS

GUARANTEE

On 18 June 2010, the Guarantor and the Representative of the Bondholders entered into the Guarantee, as amended and restated from time to time, pursuant to which the Guarantor issued, for the benefit of the Bondholders, a first demand, unconditional, irrevocable and independent guarantee to support payments of interest and principal under the Covered Bonds issued by the Issuer under the Programme and of the amounts due to the Other Guarantor Creditors. Under the Guarantee the Guarantor has agreed to pay an amount equal to the Guaranteed Amounts when the same shall become Due for Payment but which would otherwise be unpaid by the Issuer. The obligations of the Guarantor under the Guarantee constitute direct and (following the occurrence of an Issuer Event of Default and the service of a Guarantee Enforcement Notice on the Issuer and the Guarantor or, if earlier, the service on the Issuer and the Guarantor of a Guarantor Default Notice) unconditional, unsubordinated and limited recourse obligations of the Guarantor, backed by the Cover Pool as provided under Law 130, Decree No. 310 and the Bank of Italy Regulations. Pursuant to the terms of the Guarantee, the recourse of the Bondholders to the Guarantor under the Guarantee will be limited to the assets of the Cover Pool. Payments made by the Guarantor under the Guarantee will be made subject to, and in accordance with, the relevant Priority of Payments, as applicable.

Under the Guarantee the parties thereof have agreed that as of the date of administrative liquidation (*liquidazione coatta amministrativa*) of the Issuer, the Guarantor (or the Representative of the Bondholders pursuant to the Intercreditor Agreement) shall exercise, on an exclusive basis and in compliance with the provisions of article 4 of the Decree No. 310, the rights of the Bondholders against the Issuer and any amount recovered from the Issuer will be part of the Guarantor Available Funds.

The Guarantor, pursuant to the Guarantee, shall pay or procure to be paid to the Bondholders:

(a) without prejudice to the effects of a suspension of payments by the Issuer pursuant to article 74 of the Consolidated Banking Act and under article 4, sub-paragraph 4, of Decree No. 310, following the service of a Guarantee Enforcement Notice on the Issuer and on the Guarantor (but prior to a Guarantor Event of Default), on each Guarantor Payment Date that falls on an Interest Payment Date, an amount equal to those Guaranteed Amounts which shall become Due for Payment, but which have not been paid by the Issuer to the relevant Bondholders on the relevant Interest Payment Date; or

(b) following the service of a Guarantor Default Notice on the Guarantor in respect of the Covered Bonds of each Series or Tranche (which shall have become immediately due and repayable), the Guaranteed Amounts.

All payments of Guaranteed Amounts by or on behalf of the Guarantor shall be made without withholding or deduction for, or on account of, any present or future taxes, duties, assessments or other governmental charges of whatever nature unless such withholding or deduction of such taxes, assessments or other governmental charges is required by law or regulation or administrative practice of any jurisdiction. If any such withholding or deduction is required, the Guarantor shall pay the Guaranteed Amounts net of such withholding or deduction and shall account to the appropriate tax authority for the amount required to be withheld or

deducted. The Guarantor shall not be obliged to pay any amount to any Bondholder in respect of the amount of such withholding or deduction.

To the extent that the Guarantor makes, or there is made on its behalf, a payment of any amount under the Guarantee, the Guarantor will be fully and automatically subrogated to the Bondholders' rights against the Issuer for the payment of an amount corresponding to the payments made by the Guarantor with respect to the relevant Series or Tranche of Covered Bonds under this Guarantee, to the fullest extent permitted by applicable law.

Governing law

The Guarantee and any non-contractual obligations arising out of or in connection with it are governed by Italian law.

SUBORDINATED LOAN AGREEMENTS

Each of BMPS and BAV, respectively on 25 May 2010 and on 27 May 2011 entered into with the Guarantor the respective Subordinated Loan Agreements, as amended and restated from time to time, pursuant to article 7-*bis* of Law 130 under which each of BMPS and BAV, acting respectively as Principal Subordinated Lender and Additional Subordinated Lender, granted to the Guarantor a term loan facility in an aggregate amount equal to the relevant Total Commitment, increased by any amount required to meet the Tests, for the purposes of (a) funding the purchase price of the Eligible Assets and/or (b) funding the purchase of Top-Up Assets or other Eligible Assets pursuant to the terms of the Master Asset Purchase Agreement and the Cover Pool Management Agreement.

Following the merger by way of incorporation of Banca Antonveneta S.p.A. ("**BAV**") in BMPS with effect as of 28 April 2013 (the "**Merger**") BMPS assumed all rights and obligations of BAV in the capacity as Additional Subordinated Lender under the Programme and any reference to BAV in the Programme Documents shall be deemed to be referred to BMPS, which takes over any and all activities and roles previously carried out by BAV.

Under the terms of the Subordinated Loan Agreements, the Principal Seller and the Additional Seller, in their capacity, respectively, as Principal Subordinated Lender and Additional Subordinated Lender, will from time to time grant to the Guarantor Term Loans in the form of (i) a Programme Term Loan, or (ii) a Floating Interest Term Loan, or (iii) a Fixed Interest Term Loan.

Each Programme Term Loan will be granted for the purpose of, *inter alia*, (i) funding the purchase price of the Eligible Assets included in the Initial Portfolio and in any New Portfolios to be transferred to the Guarantor pursuant to the Master Assets Purchase Agreement, and/or (ii) remedying any breach of the Tests and complying with the 15% Limit with respect to the Top-Up Assets, and/or (iii) funding the purchase price of the Eligible Assets and Top-Up Assets to be transferred to the Guarantor pursuant to the Master Assets Purchase Agreement for overcollateralisation purposes and/or funding the redemption of a Floating Interest Term Loan or Fixed Interest Term Loan at the Maturity Date (or Extended Maturity Date, if applicable) of the Corresponding Series or Tranche of Covered Bonds.

Each Floating Interest Term Loan or Fixed Interest Term Loan will be granted for the purpose of, *inter alia*, (i) funding the purchase price of the Eligible Assets included in any New Portfolios to be transferred to the Guarantor in connection with the issue of a Corresponding

Series or Tranche of Covered Bonds to be issued under the Programme, and/or (ii) reimbursing (also in part) any Term Loan for an amount equal to the Corresponding Series or Tranche of Covered Bonds.

The rate of interest applicable (x) in respect of each Programme Term Loan for each relevant Loan Interest Period shall be equal to EURIBOR plus a Margin (the "**Base Interest**") and shall be payable to each relevant Subordinated Lender, together with a Premium (if any), on each Guarantor Payment Date in accordance with the applicable Priority of Payments; and (y) in respect of each Floating Interest Term Loan or Fixed Interest Term Loan for each relevant Loan Interest Period shall be equal to the interest computed under the Corresponding Series or Tranche of Covered Bonds (the "**Corresponding Interest**") and shall be payable to each relevant Subordinated Lender on each Guarantor Payment Date following the Guarantor Calculation Date which falls after an Interest Payment Date of the Corresponding Series or Tranche of Covered Bonds in accordance with the applicable Priority of Payments. No Premium shall be payable on the Floating Interest Term Loan(s) or Fixed Interest Term Loan(s), **provided that** following the delivery of Breach of Tests Notice no payment of interest under any Term Loan shall be made by the Guarantor to the Subordinated Lender.

Each Term Loan shall be repaid on each Guarantor Payment Date prior to a Guarantee Enforcement Notice according to the relevant Priority of Payments and within the limits of the then Guarantor Available Funds, **provided that** such repayment does not result in a breach of any of the Tests and **provided that** no Breach of Tests Notice has been delivered.

Each Programme Term Loan, unless repaid in full prior to such date, shall be repaid on the Maturity Date or the Extended Maturity Date, if applicable, of the latest maturing Series of Covered Bonds within the limits of the then Guarantor Available Funds and in accordance with the relevant Priority of Payments.

Each Floating Interest Term Loan or Fixed Interest Term Loan, unless repaid in full prior to such date, shall be repaid, in full or in part, starting from the Guarantor Payment Date falling after the Maturity Date (or, as applicable, the Extended Maturity Date) of the Corresponding Series of Covered Bonds and thereafter on any Guarantor Payment Date, and shall be payable within the limits of the then Guarantor Available Funds and in accordance with the relevant Priority of Payments.

Under the Subordinated Loan Agreements, the parties thereof have agreed that in the event that the Principal Subordinated Lender and the Additional Subordinated Lender's rating fall below "BBB(low)" by DBRS, "BBB-" by Fitch and "Baa3" by Moody's, unless previously repaid in full in accordance with the terms of the Subordinated Loan Agreements, (i) each Programme Term Loan shall be due for repayment on the date falling six months after the Maturity Date or, as applicable, the Extended Maturity Date, of the last maturing Series or Tranche of Covered Bonds issued under the Programme (unless the early redemption of the Programme Term Loan is necessary for the purpose of complying with the 15% Limit in accordance with the provisions of Decree 310 and the Bank of Italy Regulations (and to the extent that no purchase of Eligible Assets is possible to this effect the provisions of the Master Assets Purchase Agreement), in accordance with the relevant Priority of Payments; and (ii) each Floating Interest Term Loan or Fixed Interest Term Loan shall be due for repayment, in full or in part, starting from the Guarantor Payment Date falling six months after the Maturity Date or, as applicable, the Extended Maturity Date, of the Series or Tranche of Covered Bonds issued in connection with the relevant Floating Interest Term Loan or Fixed Interest Term Loan and thereafter on each Guarantor Payment Date (unless the early redemption of the Floating Interest Term Loan or

Fixed Interest Term Loan is necessary for the purpose of complying with the 15% Limit in accordance with the provisions of Decree 310 and the Bank of Italy Regulations (and to the extent that no purchase of Eligible Assets is possible to this effect the provisions of the Master Assets Purchase Agreement a), in accordance with the relevant Priority of Payments.

Amounts owed to each Subordinated Lender by the Guarantor under the Subordinated Loan Agreements will be subordinated to amounts owed by the Guarantor under the Guarantee.

Governing law

The Subordinated Loan Agreements and any non-contractual obligations arising out of or in connection with them are governed by Italian law.

MASTER ASSETS PURCHASE AGREEMENT

On 25 May 2010, BMPS and the Guarantor entered into the Master Assets Purchase Agreement, as amended and restated from time to time in accordance with the combined provisions of articles 4 and 7-*bis* of Law 130, pursuant to which BMPS, in its capacity as Principal Seller, assigned and transferred, without recourse (*pro soluto*), to the Guarantor and the Guarantor purchased, without recourse (*pro soluto*), the Assets comprised in the Initial Portfolio.

On 27 May 2011, BAV acceded, in its capacity as Additional Seller, to the Master Assets Purchase Agreement pursuant to which assigned and transferred, without recourse (*pro soluto*), to the Guarantor and the Guarantor purchased, without recourse (*pro soluto*), a New Portfolio of Assets. Following the Merger, BMPS assumed all rights and obligations of BAV in the capacity as Additional Seller under the Programme and any reference to BAV in the Programme Documents shall be deemed to be referred to BMPS, which takes over any and all activities and roles previously carried out by BAV.

Under the Master Assets Purchase Agreement, upon satisfaction of certain conditions set out therein, each of BMPS and BAV (i) undertook to assign and transfer in the future, without recourse (*pro soluto*), to the Guarantor and the Guarantor undertook to purchase in the future, without recourse (*pro soluto*) from BMPS and BAV, New Portfolios if such transfer is required under the terms of the Cover Pool Management Agreement in order to ensure the compliance of the Cover Pool with the Tests and with the 15% Limit with respect to the Top-Up Assets; and (ii) may transfer New Portfolios to the Guarantor, and the Guarantor shall purchase from BMPS and BAV such New Portfolios, in order to supplement the Cover Pool in connection with the issuance by BMPS and BAV of further Series or Tranches of Covered Bonds under the Programme in accordance with the Programme Agreement.

Pursuant to the Master Assets Purchase Agreement, the Guarantor further undertook to purchase any New Portfolios transferred from time to time by any other eligible bank part of the Montepaschi Group which will accede to the Programme as Additional Seller.

Prior to the occurrence of a Guarantor Event of Default, Portfolios may only be offered or purchased if the following conditions are satisfied:

(a) the First Series of Covered Bonds (or, as the case may be, the Series of Covered Bonds immediately preceding the assignment of such Portfolios) has been issued and fully subscribed;

(b) a Guarantor Default Notice has not been served on the Guarantor;

(c) with respect to any assignment (i) of Top-Up Assets by the relevant Seller(s) in order to supplement the Cover Pool against the issuance of further Series or Tranche of Covered Bonds, or (ii) made in order to comply with the 15% Limit with respect to the Top-Up Assets, (A) the Guarantor has received from the relevant Seller(s) the amounts due under the relevant Subordinated Loan Agreement for the payment of the purchase price relating to the assigned Portfolios and (B) no Insolvency Event in respect of the relevant Seller(s) occurred;

(d) with respect to any assignment made to invest Principal Available Funds, which are in excess of the Tests, in Eligible Assets or Top-Up Assets, a Guarantor Breach of Tests Notice or a Guarantee Enforcement Notice has not been served on the Guarantor and/or the Issuer, as the case may be, and sufficient Principal Available Funds are available at each relevant Execution Date;

(e) such transfer will not result in a breach of any requirements of law (including, but not limited to, Law 130, Decree No. 310 and the Bank of Italy Regulations), including compliance of the Cover Pool with the 15% Limit with respect to the Top-Up Assets in accordance with Decree No. 310 and the Bank of Italy Regulations.

The Initial Portfolio Purchase Price payable pursuant to the Master Assets Purchase Agreement is equal to the aggregate Purchase Price of all the Assets included in the Initial Portfolio.

The Purchase Price for the Receivable included in the Initial Portfolio was equal to the sum of the most recent book value (*ultimo valore di iscrizione in bilancio*) of the each Receivable (a) minus the aggregate amount of (i) the accrued interest as at 1 January 2010 (excluded) included in such book value with respect to each Receivable; and (ii) any collections with respect to principal received by the Principal Seller with respect to each Receivable included in the Initial Portfolio starting from 1 January 2010 (included) until the relevant Valuation Date (included); and (b) increased of the aggregate amount of the Accrued Interest of each Receivable included in the Initial Portfolio.

The purchase Price for the Receivables included in the second Portfolio, in the third Portfolio, in the fourth Portfolio, in the BAV Portfolio, in the fifth Portfolio and in the sixth Portfolio was equal to the sum of the Individual Purchase Price of all the Assets included in the relevant Portfolio at the relevant Valuation Date.

BMPS has sold to the Guarantor, and the Guarantor has purchased from BMPS, the Assets comprised in the Initial Portfolio, in the second Portfolio, in the third Portfolio, in the fourth Portfolio, in the fifth Portfolio and in the sixth Portfolio and BAV has sold to the Guarantor, and the Guarantor has purchased from BAV the BAV Portfolio which meet the Common Criteria (described in detail in the section headed "*Description of the Cover Pool*") and the relevant Additional Criteria. Receivables comprised in any New Portfolio to be transferred under the Master Assets Purchase Agreement shall meet, in addition to the Common Criteria, the relevant Specific Criteria and/or any Additional Criteria (both as defined below).

As consideration for the transfer of any New Portfolios, pursuant to the Master Assets Purchase Agreement, the Guarantor will pay to BMPS, or any Additional Seller(s) acceding to the Master Assets Purchase Agreement and the other relevant Programme Documents, an amount equal to the aggregate of the Purchase Price of all the relevant Receivables as at the relevant Valuation

Date. The Purchase Price for each Asset included in each New Portfolio will be (X) with respect to each Receivable, the most recent book value (*ultimo valore di iscrizione in bilanci*o) of the relevant Receivable: (a) minus the aggregate amount of (i) the accrued interest obtained at the date of the last financial statement with reference to such Receivable and included in such book value; and (ii) any collections with respect to principal received by the relevant Seller with respect to such Receivable, starting from the date of the most recent financial statement (*ultimo bilancio*) until the relevant Valuation Date (included); and (b) increased of the aggregate amount of the Accrued Interest with respect to such Receivable obtained at the relevant Valuation Date; or (Y) such other value, pursuant to article 7-*bis*, sub-paragraph 7, of Law 130, as indicated by the Principal Seller (or each Additional Seller(s)) in the relevant Transfer Proposal (also with respect to any further Eligible Assets different from the Receivables or any Top-Up Assets).

Pursuant to the Master Assets Purchase Agreement, prior to the service of a Guarantee Enforcement Notice, BMPS and BAV will have the right to repurchase Assets, in accordance with articles 1260 and following of the civil code or in accordance with article 58 of the Consolidated Banking Act, as the case may be, transferred to the Guarantor under the Master Assets Purchase Agreement in the following circumstances:

(a) to purchase Delinquent Assets or Defaulted Assets;

(b) to purchase Excess Assets (to be selected on a random basis);

(c) to purchase Affected Assets;

(d) to purchase Assets which have become non-eligible in accordance with Decree No. 310;

(e) Receivables, not included under the Assets from (a) to (d) above, being subject to renegotiations with the relevant Debtor pursuant to the Master Servicing Agreement or which have become the object of judicial proceedings; and

(f) Receivables not included under the Assets under point (a) above, in respect of which there are 6 unpaid Instalments (in respect of Receivables deriving from Mortgage Loans with monthly instalments), 2 unpaid Instalments (in respect of Receivables deriving from Mortgage Loans with quarterly instalments) or 1 unpaid Instalments (in respect of Receivables deriving from Mortgage Loans with semi-annual instalments).

If on any Test Calculation Date or Quarterly Test Calculation Date, as the case may be, a Test Performance Report specifies that the Cover Pool is not in compliance with the relevant Test, then the Principal Seller, (and/or any Additional Seller(s) in respect of each relevant New Portfolio transferred to the Guarantor will either (i) sell additional Eligible Assets and/or Top-Up Assets to the Guarantor for an amount sufficient to allow the relevant Test to be met on the next following Test Calculation Date as determined in the immediately following Test Performance Report, in accordance with the Master Assets Purchase Agreement and the Cover Pool Management Agreement, to be financed through the proceeds of Term Loans to be granted by the Principal Seller (and/or any Additional Seller(s)) or (ii) substitute any relevant assets in respect of which the right of repurchase can be exercised under the terms of the Master Assets Purchase Agreement with new Eligible Assets, for an amount sufficient to allow the relevant Test to be met on the next following Test Calculation Date as determined in the immediately following Test Performance Report.

After the service of a Guarantee Enforcement Notice on the Guarantor, but prior to service of a Guarantor Default Notice, the Guarantor may or shall, if necessary in order to effect timely payments under the Covered Bonds, sell the Eligible Assets and the Top-Up Assets included in the Cover Pool in accordance with the terms of the Cover Pool Management Agreement and BMPS, or any Additional Seller(s), as the case may be, has the right of pre-emption to buy such Eligible Assets and the Top-Up Assets.

The transfer of the Initial Portfolio was made in accordance with article 58, subsections 2, 3 and 4 of the Consolidated Banking Act (as provided by article 4 of Law 130). Notice of the transfer was published in the Official Gazette of the Republic of Italy (*Gazzetta Ufficiale della Repubblica Italiana*) Parte II, number 63 of 29 May 2010 and filed for publication in the companies register of Treviso on 03 June 2010.

The transfer of the second Portfolio was made in accordance with article 58, subsections 2, 3 and 4 of the Consolidated Banking Act (as provided by article 4 of Law 130). Notice of the transfer was published in the Official Gazette of the Republic of Italy (*Gazzetta Ufficiale della Repubblica Italiana*) Parte II, number 143 of 2 December 2010 and filed for publication in the companies register of Treviso on 1 December 2010.

The transfer of the third Portfolio was made in accordance with article 58, subsections 2, 3 and 4 of the Consolidated Banking Act (as provided by article 4 of Law 130). Notice of the transfer was published in the Official Gazette of the Republic of Italy (*Gazzetta Ufficiale della Repubblica Italiana*) Parte II, number 25 of 3 March 2011 and filed for publication in the companies register of Treviso on 1 March 2011.

The transfer of the BAV Portfolio was made in accordance with article 58, subsections 2, 3 and 4 of the Consolidated Banking Act (as provided by article 4 of Law 130). Notice of the transfer was published in the Official Gazette of the Republic of Italy (*Gazzetta Ufficiale della Repubblica Italiana*) Parte II, number 63 of 4 June 2011 and filed for publication in the companies register of Treviso on 7 June 2011.

The transfer of the fourth Portfolio was made in accordance with article 58, subsections 2, 3 and 4 of the Consolidated Banking Act (as provided by article 4 of Law 130). Notice of the transfer was published in the Official Gazette of the Republic of Italy (*Gazzetta Ufficiale della Repubblica Italiana*) Parte II, number 111 of 24 September 2011 and filed for publication in the companies register of Treviso on 23 September 2011.

The transfer of the fifth Portfolio was made in accordance with article 58, subsections 2, 3 and 4 of the Consolidated Banking Act (as provided by article 4 of Law 130). Notice of the transfer was published in the Official Gazette of the Republic of Italy (*Gazzetta Ufficiale della Repubblica Italiana*) Parte II, number 73 of 22 June 2013 and filed for publication in the companies register of Treviso on 25 June 2013.

The transfer of the sixth Portfolio was made in accordance with article 58, subsections 2, 3 and 4 of the Consolidated Banking Act (as provided by article 4 of Law 130). Notice of the transfer was published in the Official Gazette of the Republic of Italy (*Gazzetta Ufficiale della Repubblica Italiana*) Parte II, number 110 of 24 September 2015 and filed for publication in the companies register of Treviso on 22 September 2015.

The transfer of the seventh Portfolio was made in accordance with article 58, subsections 2, 3 and 4 of the Consolidated Banking Act (as provided by article 4 of Law 130). Notice of the

transfer was published in the Official Gazette of the Republic of Italy (*Gazzetta Ufficiale della Repubblica Italiana*) Parte II, number 113 of 5 November 2016 and filed for publication in the companies register of Treviso on 4 November 2016.

The transfer of the eighth Portfolio was made in accordance with article 58, subsections 2, 3 and 4 of the Consolidated Banking Act (as provided by article 4 of Law 130). Notice of the transfer was published in the Official Gazette of the Republic of Italy (*Gazzetta Ufficiale della Repubblica Italiana*) Parte II, number 154 of 31 December 2016 and filed for publication in the companies register of Treviso on 29 December 2016.

The transfer of the ninth Portfolio was made in accordance with article 58, subsections 2, 3 and 4 of the Consolidated Banking Act (as provided by article 4 of Law 130). Notice of the transfer was published in the Official Gazette of the Republic of Italy (*Gazzetta Ufficiale della Repubblica Italiana*) Parte seconda, number 54 of 10 May 2018 and filed for publication in the companies register of Treviso on 7 May 2018.

For further details about the Cover Pool, see section headed "*Description of the Cover Pool*".

Governing law

The Master Assets Purchase Agreement and any non-contractual obligations arising out of or in connection with it are governed by Italian law.

WARRANTY AND INDEMNITY AGREEMENT

On 25 May 2010, BMPS, in its capacity as Principal Seller and the Guarantor entered into the Warranty and Indemnity Agreement, as amended and restated from time to time, pursuant to which BMPS has given certain representations and warranties in favour of the Guarantor in respect of, *inter alia*, itself, the Eligible Assets and the Top-Up Assets and certain other matters in relation to the issue of the Covered Bonds and has agreed to indemnify the Guarantor in respect of certain liabilities of the Guarantor that may be incurred, *inter alia*, in connection with the purchase and ownership of the Assets.

The Warranty and Indemnity Agreement contains representations and warranties given by BMPS as to matters of law and fact affecting BMPS including, without limitation, that BMPS validly exists as a legal entity, has the corporate authority and power to enter into the Programme Documents to which it is party and assume the obligations contemplated therein and has all the necessary authorisations for such purpose.

Pursuant to the Warranty and Indemnity Agreement, the Principal Seller (and each Additional Seller) has agreed to indemnify and hold harmless the Guarantor, its officers or agents or any of its permitted assigns from and against any and all damages, losses, claims, costs and expenses awarded against, or incurred by such parties which arise out of or result from, *inter alia*, (a) a default by BMPS in the performance of any of its obligations under any Programme Document to which it is a party; (b) any representation and warranty given by BMPS under or pursuant to the Warranty and Indemnity Agreement being false, incomplete or incorrect; (c) any alleged liability and/or claim raised by any third party against the Guarantor, as owner of the Receivables, which arises out of any negligent act or omission by BMPS in relation to the Receivables, the servicing and collection thereof or from any failure by BMPS to perform its obligations under any of the Programme Documents to which it is, or will become, a party; (d) the non compliance of the terms and conditions of any Mortgage Loan with the provisions of

article 1283 of the Civil Code; (e) the fact that the validity or effectiveness of any security, pledge, collateral or other security interest, relating to the Mortgage Loans, has been challenged by way of claw-back (*azione revocatoria*) or otherwise, including, without limitation, pursuant to article 67 of the Bankruptcy Law; (f) any amount of any Receivable not being collected or recovered by the Guarantor as a consequence of the proper and legal exercise by any Debtor and/or insolvency receiver of a Debtor of any grounded right to termination, annullability or withdrawal, or other claims and/or counterclaims, including set off, against BMPS in relation to each Mortgage Loan Agreement, Mortgage Loan, Mortgage, Collateral Security and any other connected act or document, including, without limitation, any claim and/or counterclaim deriving from non compliance with the Usury law provisions in the granting of the Mortgage Loan.

Governing law

The Warranty and Indemnity Agreement any non-contractual obligations arising out of or in connection with it are governed by Italian law.

MASTER SERVICING AGREEMENT

On 25 May 2010, BMPS, in its capacity as Principal Servicer, and the Guarantor entered into the Master Servicing Agreement, as amended and restated from time to time, pursuant to which (i) the Guarantor has appointed BMPS as Principal Servicer to carry out the administration, management, collection and recovery activities relating to the Assets comprised in each portfolio to be transferred in accordance with the Master Assets Purchase Agreement and to act as "*soggetto incaricato della riscossione dei crediti ceduti e dei servizi di cassa e di pagamento*" pursuant to article 2, sub-paragraph 3, of Law 130, and (ii) have agreed, in case an Additional Seller will enter into the Programme, the terms of the appointment of such Additional Seller to act as Additional Servicer in relation to the administration, management and collection activities related to the Assets forming part of each New Portfolio transferred to the Guarantor by such Additional Seller.

On 27 May 2011, BAV, in its capacity as Additional Seller, acceded to the Master Servicing Agreement in its capacity as Additional Servicer. Following the Merger, BMPS assumed all rights and obligations of BAV in the capacity as Additional Servicer under the Programme and any reference to BAV in the Programme Documents shall be deemed to be referred to BMPS, which takes over any and all activities and roles previously carried out by BAV.

The receipt of the Collections is the responsibility of the Principal Servicer and further to the relevant accession to the Master Servicing Agreement, of the relevant Additional Servicer(s), acting as agent (*mandatario*) of the Guarantor. Under the Master Servicing Agreement, the relevant Servicer shall (i) credit to the relevant collection account any and all Collections related to the relevant Assets within the Business Day immediately following receipt, and (ii) starting from the Issue Date of the first Series or Tranche of Covered Bonds, within one Business Day from the day on which the relevant Collections have been credited to the collection account, will credit the relevant amounts to the Main Programme Account.

The Servicer will also be responsible for carrying out, on behalf of the Guarantor, in accordance with the Master Servicing Agreement and the Credit and Collection Policy, any activities related to the management, enforcement and recovery of the Defaulted Receivables and Delinquent Receivables. The Servicer may sub-delegate to one or more entities, further activities in addition to those indicated in sup-paragraph (i) above, subject to the limitations set

out in the supervisory regulations and with the prior written notice to the Guarantor, the Representative of the Bondholders and the Rating Agencies, **provided that** such sub-delegation does not prejudice the compliance by the Servicer with its obligations under the Master Servicing Agreement. The Servicer shall remain fully liable *vis-à-vis* the Guarantor for the performance of any activity so delegated.

The Servicer has been authorised, prior to a breach of the Tests and serving of a Breach of Tests Notice and/or Guarantee Enforcement Notice to the Issuer and Guarantor, to reach with the Debtors any settlement agreements or payment extensions or moratorium or similar arrangements (including any renegotiation in relation to the interest rates and margins), in accordance with the provisions of the Credit and Collection Policy.

Following (i) a breach of the Tests and until such breach is continuing, or (ii) the delivery to the Guarantor and Issuer of a Guarantee Enforcement Notice and/or Breach of Tests Notice, the Servicer will not be authorised to reach with any Debtors, to grant any release with respect to the Receivables or enter into any amendment to the Mortgage Loan Agreements, save where required by any applicable laws or expressly authorised by the guarantor and prior notice of the relevant amendment to the Rating Agencies.

The Principal Servicer, in relation to its servicing activities pursuant to the Master Servicing Agreement, has confirmed its willingness to be the autonomous holder (*titolare autonomo del trattamento dei dati personali*) together with the Guarantor, for the processing of personal data in relation to the Receivables, pursuant to the Privacy Law and to be responsible, in such capacity, for processing such data.

The Servicer has represented to the Guarantor that it has all skills, software, hardware, information technology and human resources necessary to comply with the efficiency standards required by the Master Servicing Agreement.

The Principal Servicer has undertaken to prepare and deliver to, *inter alios*, the Guarantor, the Asset Monitor, the Swap Counterparties, the Representative of the Bondholders, the Principal Paying Agent, the Guarantor Corporate Servicer, the Back-Up Servicer Facilitator and the Rating Agencies the Monthly Servicer's Report Date and the Quarterly Servicer's Report Date.

Upon accession to the Master Servicing Agreement (i) each Additional Servicer(s) will prepare and deliver to the Principal Servicer its Servicer's Report substantially in the form of the Monthly Servicer's Report Date or the Quarterly Servicer's Report Date, **provided that** such reports will be prepared and delivered with respect to each relevant New Portfolio which will be assigned and transferred by each Additional Servicer, in its capacity as Additional Seller, in the context of the Programme pursuant to the relevant Master Assets Purchase Agreement, and (ii) upon receipt from each Additional Servicer of the respective Servicer's Report, the Principal Servicer will prepare and deliver to, *inter alios*, the Guarantor, the Asset Monitor, the Swap Counterparties, the Representative of the Bondholders, the Principal Paying Agent, the Guarantor Corporate Servicer, the Back-Up Servicer Facilitator and the Rating Agencies, the Servicer's Report which includes also the information contained in the Servicer's Reports prepared by the Additional Servicer.

On 3 April 2012, the Guarantor has appointed Securitisation Services S.p.A. as Back-up Servicer Facilitator, and Securitisation Services S.p.A. has accepted such appointment and has acceded to the Servicing Agreement. Upon the rating of the Servicer's long term unguaranteed, unsubordinated and unsecured obligation would have fallen below Baa3 by Moody's and/or

"BBB-" from Fitch, (i) the Back-up Servicer Facilitator would have used its best effort to identify an entity suitable to act as back-up servicer in accordance with the Servicing Agreement (the "**Back-up Servicer**") and (ii) the Guarantor, subject to prior consultation with the Principal Servicer and the Representative of the Bondholders, would have appointed such Back-up Servicer within 45 days from the abovementioned downgrading.

On 18 October 2012, the long term rating of the Principal Servicer's unsecured, unsubordinated and unguaranteed debt obligations has fallen below "Baa3" by Moody's.

Further to the extensions of the timing provided for under the Master Servicing Agreement, on 8 April 2013, the Guarantor appointed a Back-up Servicer which has been identified in Securitisation Services.

The Back-up Servicer would automatically succeed to the Servicer upon termination or resignation of the Servicer pursuant to the Servicing Agreement.

The Guarantor may terminate the Servicer's appointment and appoint a successor servicer (the "**Substitute Servicer**") if certain events occur (each a "**Servicer Termination Event**"). The Servicer Termination Events include, *inter alia*, the following events:

(a) failure on the part of the relevant Servicer(s) to deposit or pay any amount required to be paid or deposited which failure continues for a period of 7 Business Days following receipt by the Servicer of a written notice from the Guarantor requiring the relevant amount to be paid or deposited;

(b) failure on the part of the relevant Servicer(s) to observe or perform any other term, condition, covenant or agreement provided for under the Master Servicing Agreement and the other Programme Documents to which it is a party, and the continuation of such failure for a period of 10 Business Days following receipt by the relevant Servicer(s) of written notice from the Guarantor, **provided that** a failure ascribable to any entities delegated by the Servicer in accordance with the Master Servicing Agreement shall not constitute a Servicer Termination Event unless in case of failure on the part of the Servicer itself;

(c) an Insolvency Event occurs with respect to the Servicer;

(d) it becomes unlawful for the relevant Servicer(s) to perform or comply with any of its obligations under the Master Servicing Agreement or the other Programme Documents to which it is a party;

(e) the Servicer is or will be unable to meet the current or future legal requirements and the Bank of Italy's regulations for entities acting as servicers in the context of a covered bonds transaction.

Notice of any termination of the Servicer's appointment shall be given in writing, in accordance with the provisions of the Master Servicing Agreement, by the Guarantor to the Servicer with the prior agreement of the Representative of the Bondholders and shall be effective from the date of such termination or, if later, when the appointment of a Substitute Servicer becomes effective.

The Guarantor may, upon the occurrence of a Servicer Termination Event, appoint as Substitute Servicer any person who, *inter alia*:

(a) meets the requirements of Law 130 and the Bank of Italy to act as Servicer;

(b) has at least three years of experience (whether directly or through subsidiaries) in the administration of mortgage loans in Italy;

(c) has available and is able to use software for the administration of mortgages compatible with that of the Servicer;

(d) has direct access and is able to use professionally, in the carrying out of the administration of the loans, software and hardware utilities which are compatible with those used until the revocation by the relevant Servicer(s) and, in any case, who has access to proper technologies and human resources for the carrying out of the relevant collection and recovery activities relating to the Receivables and the proceeds deriving from the Asset Backed Securities, and perform all other obligations in compliance with the standards provided by the Master Servicing Agreement and the Bank of Italy supervisory regulations (*Istruzioni di Vigilanza della Banca d'Italia*); and

(e) has sufficient assets to ensure the continuous and effective performance of its duties.

Pursuant to the Master Servicing Agreement the Servicer shall not be entitled to resign from its appointment as Servicer prior to the Expiry Date.

Governing law

The Master Servicing Agreement any non-contractual obligations arising out of or in connection with it are governed by Italian law.

CASH ALLOCATION, MANAGEMENT AND PAYMENTS AGREEMENT

On 18 June 2010, the Issuer, Italian Account Bank, Pre-Issuer Default Test Calculation Agent, Principal Seller, Principal Servicer, Principal Subordinated Lender, Guarantor, English Account Bank, Cash Manager, Principal Paying Agent, Italian Back-Up Account Bank, English Back-Up Account Bank, Payments Account Bank, Guarantor Calculation Agent, Guarantor Corporate Servicer, Post-Issuer Default Test Calculation Agent, and Representative of the Bondholders entered into the Cash Allocation, Management and Payments Agreement, as amended and restated from time to time.

On 27 May 2011, BAV, in its capacity as Additional Seller, Additional Servicer and Additional Subordinated Lender, acceded the Cash Allocation, Management and Payments Agreement.

Under the terms of the Cash Allocation, Management and Payments Agreement, *inter alia*:

(i) the Guarantor has appointed (i) BMPS as Italian Account Bank and, until the delivery of a Guarantee Enforcement Notice in accordance with the Programme Documents, Pre-Issuer Default Test Calculation Agent; (ii) Banca Monte dei Paschi di Siena S.p.A., as Cash Manager; (iii) The Bank of New York Mellon (Luxembourg) S.A., Italian Branch as Payments Account Bank and Italian Back-Up Account Bank and, from the date on which a Guarantee Enforcement Notice has been delivered in accordance with the Programme Documents, Principal Paying Agent; (iv) The Bank of New York Mellon S.A./N.V., London Branch, English Back-Up Account Bank and (v) Securitisation Services S.p.A. as Guarantor Calculation Agent and, from the date on

which a Guarantee Enforcement Notice has been delivered in accordance with the Programme Documents, Post-Issuer Default Test Calculation Agent;

(ii) the Issuer has appointed The Bank of New York Mellon (Luxembourg) S.A., Italian Branch as Principal Paying Agent until the delivery of a Guarantee Enforcement Notice;

(iii) the Italian Account Bank has agreed to establish and maintain, in the name and on behalf of the Guarantor, the Italian Collection Account, the Italian Securities Collection Account, the Expenses Account and Eligible Investments Securities Account and to provide the Guarantor with certain reporting services together with account handling services in relation to monies from time to time standing to the credit of such accounts. In addition the Italian Account Bank has agreed to provide the Guarantor with certain payment services pursuant to the terms of the Cash Allocation, Management and Payments Agreement;

(iv) the Cash Manager has agreed, *inter alia*, to invest money standing to the credit of any of the Reserve Account and/or the Main Programme Account to purchase Eligible Investments;

(v) the Guarantor Corporate Servicer has agreed to operate the Expenses Account in order to make certain payments as set out in the Cash Allocation, Management and Payment Agreement;

(vi) the Principal Paying Agent has agreed to provide the Issuer and the Guarantor with certain payment services together with certain calculation services pursuant to the terms of the Cash Allocation, Management and Payments Agreement and to this purpose, *inter alia*, determine on each Interest Determination Date or as otherwise specified in the Final Terms after the delivery of a Guarantee Enforcement Notice or a Guarantor Default Notice, the relevant Rate of Interest, the Interest Amount and any other amount payable in respect of each Covered Bond of each Series and Tranche and notify the Issuer, the Guarantor, the Guarantor Calculation Agent, the Principal Servicer and the Representative of the Bondholders of such determination;

(vii) the Payments Account Bank has agreed to establish and maintain, in the name and on behalf of the Guarantor, subject to the delivery of a Guarantee Enforcement Notice, the Payments Account, until the earlier of the date on which all Series or Tranche of Covered Bonds issued in the context of the Programme have been cancelled or redeemed in full in accordance with their Terms and Conditions and the relevant Final Terms. Under the terms of the Cash Allocation, Management and Payments Agreement, the Payments Account Bank and the Guarantor have undertaken that the Payments Accounts shall be operational by no later than 5 Business Day after the date on which a Guarantee Enforcement Notice is delivered;

(viii) the Principal Paying Agent has agreed, *inter alia*, that (A) prior to the delivery of a Guarantee Enforcement Notice, it will make payments of principal and interest in respect of the Covered Bonds on behalf of the Issuer in accordance with the relevant Final Terms and the provisions of the Cash, Allocation, Management and Payments Agreement which regulate the payments through Monte Titoli; and (B) following the delivery of a Guarantee Enforcement Notice and/or a Guarantor Default Notice, on each Business Day preceding each Guarantor Payment Date which corresponds to an Interest

Payment Date and/or a Maturity Date and/or an Extended Maturity Date or on any date on which a payment on the Covered Bonds has to be made in accordance with the relevant Final Terms and the provisions of the Guarantee, it will make payments from the Payments Account of any Interest Amount and/or Redemption Amount in respect of any Series or Tranche of Covered Bonds outstanding on behalf of the Guarantor in accordance with the Guarantee and the provisions of the Cash, Allocation, Management and Payments Agreement which regulate the payments through Monte Titoli (**provided that** it shall not be obliged (but only entitled) to make any such payments if it has not received the full amount of any payment due to it.

(ix) the Guarantor Calculation Agent has agreed to provide the Guarantor with calculation services with respect to the Accounts and the Guarantor Available Funds and prepare and deliver to the Principal Servicer for such purpose the Payments Report, which shall, *inter alia* (i) take into account any calculations made under the Swap Agreements in relation to payments due or to become due by the next following Calculation Date; and (ii) reflect the occurrence of any (a) Segregation Event if a Breach of Tests Notice has been delivered and/or (b) any Issuer Event of Default if a Guarantee Enforcement Notice has been delivered.

Pursuant to clause 3.8 of the Cash Allocation, Management and Payments Agreement, upon any entity belonging to the Montepaschi Group acceding to the Programme as Additional Seller in accordance with the Programme Documents, the Guarantor shall open a specific collection account with an Eligible Institution in Italy and, subject to the terms of this Agreement, shall at all times maintain, until the date on which all Covered Bonds issued in the context of the Programme have been cancelled or redeemed in full in accordance with their terms and conditions, such specific collection account for the purpose of crediting thereto any Collections and Recoveries in respect of the Assets transferred by the relevant Additional Seller and, if appropriate, a specific securities account for the purpose of depositing any Asset Backed Securities and any Top-Up Assets represented by bonds, debentures, notes or other financial instruments in book entry form, transferred by the relevant Additional Seller. In accordance with such provision BAV has opened with the Italian Account Bank such a specific collection account (the "**BAV Collection Account**").

The Guarantor may (with the prior approval of the Representative of the Bondholders) revoke its appointment of any Agent, by giving not less than three months' (or less in the event of a breach of warranties and covenants) written notice to the Agent (with a copy to the Representative of the Bondholders), regardless of whether an Issuer Event of Default or a Guarantor Event of Default has occurred. Prior to the delivery of a Guarantee Enforcement Notice, the Issuer may revoke its appointment of the Principal Paying Agent, by giving not less than three months' (or less in the event of a breach of warranties and covenants) written notice to the Principal Paying Agent (with a copy to the Representative of the Bondholders). Any Agent may resign from its appointment under the Cash Allocation, Management and Payment Agreement, upon giving not less than three months' (or such shorter period as the Representative of the Bondholders may agree) prior written notice of termination to the Guarantor and the Representative of the Bondholders subject to and conditional upon certain conditions set out in the Cash Allocation, Management and Payment Agreement, **provided that** notice of such resignation has been given to the Rating Agencies by the Guarantor or the Representative of the Bondholders (or the resigning Agent) and a valid substitute has been appointed.

Governing law

The Cash Allocation, Management and Payments Agreement any non-contractual obligations arising out of or in connection with it are governed by Italian law.

THE ENGLISH ACCOUNT BANK AGREEMENT

On 18 June 2010, Issuer, Principal Servicer, English Account Bank, Guarantor Calculation Agent, Guarantor Corporate Servicer, Cash Manager and Representative of the Bondholders entered into the English Account Bank Agreement, as amended and restated from time to time.

Under the terms of the English Account Bank Agreement, *inter alia*:

(i) the Guarantor has appointed Banca Monte dei Paschi di Siena S.p.A., as English Account Bank and Cash Manager;

(ii) the Cash Manager has agreed to give to the English Account Bank, on behalf of the Guarantor, all directions necessary to enable the English Account Bank to operate the English Accounts in accordance with the terms of the English Account Bank Agreement;

(iii) the English Account Bank has agreed to establish and maintain, in the name and on behalf of the Guarantor, the Main Programme Account and the Reserve Account to provide the Guarantor with certain reporting services together with account handling services in relation to monies from time to time standing to the credit of such accounts. In addition the English Account Bank has agreed to provide the Guarantor with certain payment services pursuant to the terms of the English Account Bank Agreement including that the English Account Bank will, *inter alia*: (a) prior to the delivery of a Guarantee Enforcement Notice, on each Guarantor Payment Date, pay from the Main Programme Account the amounts specified in the Payments Report to the parties indicated therein, (b) following the delivery of a Guarantee Enforcement Notice or of a Guarantor Default Notice, pay from the Main Programme Account to the Payments Account, the funds, specified in the Payments Report or Post Guarantor Default Notice Report, as the case may be, to be used by the Principal Paying Agent in order to make payments of amounts due under the Covered Bonds and pay from the Main Programme Account the amounts specified in the Payments Report or Post Guarantor Default Notice Report, as the case may be, to the parties indicated therein.

The Guarantor may (with the prior approval of the Representative of the Bondholders) revoke its appointment of the English Account Bank or the Cash Manager by giving not less than three months' written notice to the English Account Bank or the Cash Manager (with a copy to the Representative of the Bondholders), regardless of whether an Issuer Event of Default or a Guarantor Event of Default has occurred. The English Account Bank or the Cash Manager may resign from its appointment under the English Account Bank Agreement, upon giving not less than three months' (or such shorter period as the Representative of the Bondholders may agree) prior written notice of termination to the Guarantor, the Rating Agencies and the Representative of the Bondholders subject to and conditional upon certain conditions set out in the English Account Bank Agreement, **provided that** a valid substitute has been appointed.

Governing law

The English Account Bank Agreement any non-contractual obligations arising out of or in connection with it are governed by English law.

THE SWAP AGREEMENTS

Covered Bond Swap Agreements

The Guarantor may, but is not obliged to, enter into one or more Covered Bond Swap Agreements on each Issue Date with one or more Covered Bond Swap Providers to hedge certain interest rate, currency and other risks in respect of amounts received by the Guarantor under the Cover Pool and the Asset Swap Agreements and amounts payable by the Guarantor under, prior to the service of a Guarantee Enforcement Notice, the Subordinated Loan and, following a Guarantee Enforcement Notice, the Covered Bonds. The aggregate notional amount of the Covered Bond Swap Agreement(s) for each Series or Tranche of Covered Bonds shall be the nominal amount on issue of such Series or Tranche of Covered Bonds.

Each Covered Bond Swap Agreement currently in place or which may be entered into in the future has, or will have, the following characteristics.

Under the Covered Bond Swap Agreements, the Guarantor will pay to the Covered Bond Swap Providers on each Guarantor Payment Date the notional amount (being the principal amount outstanding of the relevant Series or Tranche of Covered Bonds) multiplied by three month EURIBOR plus a margin. In return the Covered Bond Swap Provider(s) will pay to the Guarantor on each Interest Payment Date the same notional amount multiplied by a rate linked to the interest rate payable on such Series or Tranche of Covered Bonds.

Each Covered Bond Swap Agreement is scheduled to terminate on the Maturity Date of the Covered Bonds of the relevant Series or Tranche and may or may not take account of any extension of the Maturity Date under the terms of such Covered Bonds as specified in the relevant Covered Bond Swap Agreement. The occurrence of certain other termination events contained in a Covered Bond Swap Agreement may cause it to terminate prior to its scheduled termination date, as described in more detail below.

In addition, for issues in a currency other than Euro, the Guarantor may enter into one or more cross currency swaps to mitigate currency risks in respect of amounts received by the Guarantor under the Cover Pool and the Asset Swap Agreements and amounts payable by the Guarantor following a Guarantee Enforcement Notice, under the Covered Bonds.

Asset Swap Agreements

Some of the Mortgage Loans in the Cover Pool purchased by the Guarantor from time to time will pay a variable rate of interest and other Mortgage Loans will pay a fixed rate of interest. The Guarantor may, but is not obliged to, enter into one or more Asset Swap Agreements with one or more Asset Swap Providers to hedge the risks linked to interest it receives on the Cover Pool to ensure that it has sufficient funds to meet its quarterly payment obligations.

As of the date of this Prospectus, the Guarantor has not entered into an Asset Swap Agreement.

If entered into, it is anticipated that the Asset Swap Agreement will have the following characteristics.

The aggregate notional amount of the Asset Swap Agreement shall be the value of the Cover Pool outstanding from time to time excluding any Defaulted Loans (the "**Asset Swap Notional**").

The Guarantor shall pay to the Asset Swap Provider all the interest collections it receives (both fixed and floating) from the Cover Pool and receive from the Asset Swap Provider the Asset Swap Notional multiplied by three month EURIBOR plus a margin of 125 basis points (linked to the weighted average margin of the initial Cover Pool) which may be revised from time to time by the Parties.

The Asset Swap Agreement is scheduled to terminate on the earlier of (i) the date on which the outstanding balance of the Cover Pool is zero (ii) the final maturity date of the longest Mortgage Loan included in the Cover Pool (iii) 31 December 2055 and (iv) the date on which all Covered Bonds are redeemed in full and no further Series or Tranches are to be issue. The occurrence of certain other termination events contained in the Asset Swap Agreement may cause it to terminate prior to its scheduled termination date, as described in more detail below.

If any Additional Seller joins the Programme, then it may (subject to it being suitably rated or supported by a suitably rated entity) enter into an Asset Swap Agreement with the Guarantor in respect of the Assets in the Cover Pool transferred by it. If, however, any such Additional Seller or its credit support provider is not so rated, another entity with the required rating may enter into an Asset Swap Agreement with the Guarantor in respect of the Assets in the Cover Pool transferred by such Additional Seller.

Rating Downgrade Event

Under the terms of each Swap Agreement, in the event that the rating(s) of a Swap Provider or its credit support provider are downgraded by a Rating Agency below the rating(s) specified in the relevant Swap Agreement (in accordance with the criteria of the Rating Agencies), then such Swap Provider will, in accordance with the relevant Swap Agreement, be required to take certain remedial measures which may include:

(a) providing collateral for its obligations under the Swap Agreement, or

(b) arranging for its obligations under the relevant Swap Agreement to be transferred to an entity with the ratings required by the relevant Rating Agency in order to maintain the rating of the Covered Bonds, or

(c) procuring another entity, with the ratings meeting the relevant Rating Agency's criteria in order to maintain the rating of the Covered Bonds, to become co obligor or guarantor in respect of such Swap Provider's obligations under the Swap Agreement, or

(d) taking such other action as agreed with the relevant Rating Agency **provided that** it will not adversely affect the ratings of the then outstanding Series or Tranches of Covered Bonds.

A failure by the relevant Swap Provider to take such steps within the time periods specified in the Swap Agreement will allow the Guarantor to terminate the relevant Swap Agreement(s).

Any Swap Provider that does not, on the day of entry into a Swap Agreement, have the adequate rating shall have its obligations to the Guarantor under such Swap Agreement guaranteed by an appropriately rated entity.

Additional Termination Events

A Swap Agreement may also be terminated early in certain other circumstances, including:

(a) at the option of either party to the Swap Agreement, if there is a failure by the other party to pay any amounts due under such Swap Agreement, **provided that** this additional termination event will not apply if the failure to pay any amounts due under such Swap Agreement is due to the non-availability of Guarantor Available Funds;

(b) upon the occurrence of an insolvency of either party to the Swap Agreement, or its credit support provider (if any), or the merger of one of the parties without an assumption of the obligations under the relevant Swap Agreement;

(c) there is a change of law or change in application of any relevant law which results in the Guarantor or the Swap Provider (or both) being obliged to make a withholding or deduction on account of a tax on a payment to be made by such party to the other party under the Swap Agreement and the Swap Provider thereby being required under the terms of the Swap Agreement to gross up payments made to the Guarantor, or to receive net payments from the Guarantor (which is not required under the terms of the Swap Agreement to gross up payments made to the Swap Provider); and

(d) there is a change in law which results in the illegality of the obligations to be performed by either party under the Swap Agreements.

The following are also expected to constitute additional termination events, in whole or in part, as the case may be, with respect to the Guarantor in all the Swap Agreements:

(i) amendment to the Transaction Documents without the prior written consent of the relevant Swap Provider when such Swap Provider is of the reasonable opinion that it is materially adversely affected as a result of such amendment;

(ii) in respect of any Covered Bond Swap Agreement, redemption and prepayment (in whole or in part) of any relevant Series or Tranche of Covered Bonds;

(iii) in respect of any Covered Bond Swap Agreement, purchase and cancellation (in whole or in part) of any relevant Series or Tranche of Covered Bonds; and

(iv) in respect of any Asset Swap Agreements, sale of any of the Mortgage Loans.

Upon the termination of a Swap Agreement, the Guarantor or the Swap Provider may be liable to make a termination payment to the other party in accordance with the provisions of the relevant Swap Agreement. The amount of this termination payment will be calculated and may be made in Euro or, if applicable, the currency of the related Series or Tranche of Covered Bonds if issued in a currency other than Euro.

Credit Support Agreement

If it enters into a Swap Agreement, the Guarantor will also enter into with each Swap Provider a credit support document in the form of the ISDA 1995 Credit Support Annex (Transfer English Law) to the ISDA Master Agreement (each, a "**Credit Support Agreement**"). Each Credit Support Agreement will provide that, from time to time, if required to do so following its downgrade or the downgrade of its credit support provider and subject to the conditions

specified in the Credit Support Agreement, the relevant Swap Provider will make transfers of collateral to the Guarantor in support of its obligations under the Swap Agreement (the "**Swap Collateral**") and the Guarantor will be obliged to return equivalent collateral in accordance with the terms of the Credit Support Agreement. Each Credit Support Agreement will be governed by English Law.

Swap Collateral required to be posted by the relevant Swap Provider pursuant to the terms of the Credit Support Agreement may be delivered in the form of cash or securities. Cash amounts will be paid into an account designated a "**Swap Collateral Cash Account**" and securities will be transferred to an account designated a "**Swap Collateral Custody Account**". References to a Swap Collateral Cash Account or to a Swap Collateral Custody Account and to payments from such accounts are deemed to be a reference to payments from such accounts as and when opened by the Guarantor.

If a Swap Collateral Cash Account and/or a Swap Collateral Custody Account are opened, cash and securities (and all income in respect thereof) transferred as collateral will only be available to be applied in returning collateral (and income thereon) or in satisfaction of amounts owing by the relevant Swap Provider in accordance with the terms of the Credit Support Agreement.

Any Swap Collateral will be returned by the Guarantor to the relevant Swap Provider directly in accordance with the terms of the Credit Support Agreement and not under the Priorities of Payments.

Withholding Tax

Each Swap Provider will be obliged to make payments pursuant to the terms of its Swap Agreement without any withholding or deductions of taxes unless required by law. If any such withholding or deduction is required by law, the Swap Provider will, subject to certain conditions, be required to pay such additional amount as is necessary to ensure that the net amount actually received by the Guarantor will equal the full amount the Guarantor would have received had no such withholding or deduction been required. The Guarantor is similarly obliged to make to make payments pursuant to the terms of the Swap Agreement without any withholding or deductions of taxes unless required by law. However, if any such withholding or deduction is required by law, the Guarantor will not be required to pay such additional amount as is necessary to ensure that the net amount actually received by the Swap Provider will equal the full amount the Swap Provider would have received had no such withholding or deduction been required.

Transfer of Obligations

A Swap Provider may, at its own discretion and at its own expense, novate its rights and obligations under a Swap Agreement to any third party with the appropriate ratings, **provided that**, among other things, when the transferee is in a different jurisdiction from the transferor, such transfer will not adversely affect the ratings of any then outstanding relevant Series or Tranche of Covered Bonds and such transferee agrees to be bound by, *inter alia*, the terms of the security to which the relevant Swap Agreement is subject, on substantially the same terms as the Swap Provider.

Governing law

The Swap Agreements any non-contractual obligations arising out of or in connection with them are governed by English Law.

MANDATE AGREEMENT

On 18 June 2010, the Guarantor and the Representative of the Bondholders entered into the Mandate Agreement, as amended and supplemented on 17 June 2011, under which, subject to a Guarantor Default Notice being served or upon failure by the Guarantor to exercise its rights under the Programme Documents and fulfilment of certain conditions, the Representative of the Bondholders, acting in such capacity, shall be authorised to exercise, in the name and on behalf of the Guarantor, all the Guarantor's non-monetary rights arising out of the Programme Documents to which the Guarantor is a party.

Governing law

The Mandate Agreement any non-contractual obligations arising out of or in connection with it are governed by Italian law.

INTERCREDITOR AGREEMENT

On 18 June 2010, the Guarantor and the Other Guarantor Creditors entered into the Intercreditor Agreement, as amended and restated from time to time. On 27 May 2011 BAV acceded to the Intercreditor Agreement in its capacity as Additional Seller, Additional Servicer and Additional Subordinated Lender. Following the Merger, BMPS assumed all rights and obligations of BAV in the capacity as Additional Servicer, Additional Servicer and Additional Subordinated Lender under the Programme and any reference to BAV in the Programme Documents shall be deemed to be referred to BMPS, which takes over any and all activities and roles previously carried out by BAV. Securitisation Services S.p.A. acceded (i) on 3 April 2012 as Back-Up Servicer Facilitator; and (ii) on 8 April 2013 as Back-up Servicer. Under the Intercreditor Agreement provision is made as to the application of the proceeds from Collections in respect of the Cover Pool and as to the circumstances in which the Representative of the Bondholders will be entitled, in the interest of the Bondholders, to exercise certain of the Guarantor's rights in respect of the Cover Pool and the Programme Documents.

In the Intercreditor Agreement the Other Guarantor Creditors have agreed, *inter alia*: to the order of priority of payments to be made out of the Guarantor Available Funds; that the obligations owed by the Guarantor to the Bondholders and, in general, to the Other Guarantor Creditors are limited recourse obligations of the Guarantor; and that the Bondholders and the Other Guarantor Creditors have a claim against the Guarantor only to the extent of the Guarantor Available Funds.

Under the terms of the Intercreditor Agreement, the Guarantor has undertaken, following the service of a Guarantor Default Notice, to comply with all directions of the Representative of the Bondholders, acting pursuant to the Conditions, in relation to the management and administration of the Cover Pool.

Each of the Other Guarantor Creditors has agreed in the Intercreditor Agreement that in the exercise of its powers, authorities, duties and discretions the Representative of the Bondholders

shall have regard to the interests of both the Bondholders and the Other Guarantor Creditors but if, in the opinion of the Representative of the Bondholders, there is a conflict between their interests the Representative of the Bondholders will have regard solely to the interests of the Bondholders. The actions of the Representative of the Bondholders will be binding on each of the Other Guarantor Creditors.

Under the Intercreditor Agreement, each of the Other Guarantor Creditors has appointed the Representative of the Bondholders, as their agent (*mandatario con rappresentanza*), so that the Representative of the Bondholders may, in their name and behalf and also in the interests of and for the benefit of the Bondholders (who make a similar appointment pursuant to the Programme Agreements and the Conditions), *inter alia*, enter into the Deed of Pledge and, if necessary pursuant to the terms of the Intercreditor Agreement, into a Deed of Charge. In such capacity, the Representative of the Bondholders, with effect from the date when the Covered Bonds have become due and payable (following a claim to the Guarantor or a demand under the Guarantee in the case of an Issuer Event of Default or Guarantor Event of Default or the enforcement of the Guarantee if so instructed by the Bondholders or the exercise of any other rights of enforcement conferred to the Representative of the Bondholders), may exercise all of the Bondholders and Other Guarantor Creditors' right, title and interest in and to and in respect of the assets charged under the Deed of Pledge (and any Deed of Charge (if any)) and do any act, matter or thing which the Representative of the Bondholders considers necessary for the protection of the Bondholders and Other Guarantor Creditors' rights under any of the Programme Documents including the power to receive from the Issuer or the Guarantor any and all moneys payable by the Issuer or the Guarantor to any Bondholder or Other Guarantor Creditors. In any event, the Representative of the Bondholders shall not be bound to take any of the above steps unless it has been indemnified and/or secured to its satisfaction against all actions, proceedings, claims and demands to which it may thereby render itself liable and all costs, charges, damages and expenses which it may incur by so doing.

The parties to the Intercreditor Agreement have acknowledged and agreed that any Additional Seller may assign Eligible Assets and Top-Up Assets to the Guarantor, subject to satisfaction of certain conditions which will include the execution and/or accession to certain Programme Documents or other acts, deeds, documents and the notice to the Rating Agencies and the Joint-Arrangers. Any such Additional Seller may become party to the Intercreditor Agreement from time to time by signing an accession letter and, in addition, any Additional Seller(s) shall be required to assume certain specific undertakings as the continuation of the Programme, or any provision of law, may require (including, but not limited to, assuming the same undertakings of the Issuer and the Principal Seller set out in the Cover Pool Management Agreement and/or in the Subordinated Loan Agreement and/or in the Master Servicing Agreement, as the case may be.

The parties to the Intercreditor Agreement have acknowledged and agreed the provisions of the Terms and Conditions and the Guarantee pursuant to which, if the Issuer has failed to pay the Final Redemption Amount on the Maturity Date specified in the relevant Final Terms and the Guarantor or the Guarantor Calculation Agent on its behalf determines that the Guarantor has insufficient moneys available under the relevant Priority of Payments to pay the Guaranteed Amounts corresponding to the Final Redemption Amount in full in respect of the relevant Series or Tranche of Covered Bonds on the Extension Determination Date, then such Series become a Pass Through Series and payment of the unpaid amount by the Guarantor under the Guarantee shall be deferred until the Extended Maturity Date **provided that** any amount representing the Final Redemption Amount of such Pass Through Series due and remaining

unpaid after the Extension Determination Date may be paid by the Guarantor on any relevant Guarantor Payment Date thereafter up to (and including) the relevant Extended Maturity Date. Following the delivery of a Guarantee Enforcement Notice and upon breach of the Amortisation Test, all Series of Covered Bonds will become Pass Through Series.

Governing law

The Intercreditor Agreement any non-contractual obligations arising out of or in connection with it are governed by Italian law.

GUARANTOR CORPORATE SERVICES AGREEMENT

Under the Corporate Services Agreement entered into on 18 June 2010 between the Guarantor Corporate Servicer and the Guarantor, the Guarantor Corporate Servicer has agreed to provide certain corporate and administrative services to the Guarantor.

Governing law

The Guarantor Corporate Services Agreement and any non-contractual obligations arising out of or in connection with it are governed by Italian law.

PROGRAMME AGREEMENT

On 18 June 2010, the Issuer, the Guarantor, the Representative of the Bondholders and the Dealers, entered into the Programme Agreement pursuant to which the parties thereof have recorded the arrangements agreed between them in relation to the issue by the Issuer and the subscription by the Dealers from time to time of Covered Bonds issued under the Programme.

On 27 May 2011 BAV acceded to the Programme Agreement in its capacity as Additional Seller.

Under the Programme Agreement, the Issuer and the Dealers have agreed that any Covered Bonds of any Series or Tranche which may from time to time be agreed between the Issuer and any Dealer(s) to be issued by the Issuer and subscribed for by such Dealer(s) shall be issued and subscribed for on the basis of, and in reliance upon, the representations, warranties, undertakings and indemnities made or given or provided to be made or given pursuant to the terms of the Programme Agreement. Unless otherwise agreed, neither the Issuer nor any Dealer(s) is, are or shall be, in accordance with the terms of the Programme Agreement, under any obligation to issue or subscribe for any Covered Bonds of any Series or Tranche.

Pursuant to the Programme Agreement, before the Issuer reaches its agreement with any Dealer for the issue and purchase of any Series or Tranche of Covered Bonds under the Programme, each Dealer shall have received, and found satisfactory (in its reasonable opinion), all of the documents and confirmations described in schedule 1 (*Initial Conditions Precedent*) of the Programme Agreement constituting the initial conditions precedent and the conditions precedent set out under clause 3.2 (*Conditions precedent to the issue of any Series or Tranche of Covered Bonds*) of the Programme Agreement, as applicable to the relevant Series, shall have been satisfied.

According to the terms of the Programme Agreement, the Issuer may nominate any institution as a new Dealer in respect of the Programme or nominate any institution as a new Dealer only

in relation to a particular Series or Tranche of Covered Bonds upon satisfaction of certain conditions set out in the Programme Agreement.

In addition, under the Programme Agreement, the parties thereof have agreed to certain terms regulating, *inter alia*, the performance of any stabilisation action which may be carried out in connection with the issue of any Series or Tranche of Covered Bonds.

Governing law

The Programme Agreement any non-contractual obligations arising out of or in connection with it are governed by Italian law.

COVER POOL MANAGEMENT AGREEMENT

On 18 June 2010, Issuer, Principal Seller, Principal Servicer, Pre-Issuer Default Test Calculation Agent and Principal Subordinated Lender, Guarantor, Guarantor Calculation Agent, Post-Issuer Default Test Calculation Agent and the Representative of the Bondholders entered into the Cover Pool Management Agreement, as amended and restated from time to time, pursuant to which they have agreed certain terms regulating, *inter alia*, the performance of the Tests and the purchase and sale by the Guarantor of the Eligible Assets and Top-Up Assets included in the Cover Pool.

On 27 May 2011 BAV acceded to the Cover Pool Management Agreement in its capacity as Additional Seller, Additional Servicer and Additional Subordinated Lender. Following the Merger, BMPS assumed all rights and obligations of BAV in the capacity as Additional Servicer, Additional Servicer and Additional Subordinated Lender under the Programme and any reference to BAV in the Programme Documents shall be deemed to be referred to BMPS, which takes over any and all activities and roles previously carried out by BAV.

Under the Cover Pool Management Agreement the Issuer also in its capacity as Principal Seller and each Additional Seller(s) have jointly and severally undertaken to procure that: 1) starting from the First Issue Date and until the earlier of (a) the date on which all Series or Tranche of Covered Bonds issued in the context of the Programme have been cancelled or redeemed in full in accordance with the Terms and Conditions and the relevant Final Terms; and (b) the date on which a Guarantee Enforcement Notice is delivered, (i) on any Quarterly Test Calculation Date, and (ii) on any Test Calculation Date thereafter if on the immediately preceding Quarterly Test Calculation Date, any of the Mandatory Test was breached, each of the Mandatory Tests (as described in detail in section "*Credit structure - Tests*" below) is met with respect to the Cover Pool; and 2) starting from the First Issue Date and until the earlier of (a) the date on which all Series or Tranche of Covered Bonds issued in the context of the Programme have been cancelled or redeemed in full in accordance with the Terms and Conditions and the relevant Final Terms; and (b) the date on which a Guarantee Enforcement Notice is delivered, each of the Issuer, also in its capacity as Principal Seller, and each Additional Seller(s), has undertaken to procure that, on any Test Calculation Date, the Asset Coverage Test (as described in detail in section "*Credit structure - Tests*" below) is met with respect to the Cover Pool.

In addition, the Guarantor has undertaken to procure that starting from the date on which a Guarantee Enforcement Notice is delivered and until the earlier of: (a) the date on which all Series or Tranche of Covered Bonds issued in the context of the Programme have been cancelled or redeemed in full in accordance with the Terms and Conditions and the relevant

Final Terms; and (b) the date on which a Guarantor Default Notice is delivered, on any Test Calculation Date, the Amortisation Test (as described in detail in section "*Credit structure - Tests*" below) is met with respect to the Cover Pool.

The Pre-Issuer Default Test Calculation Agent has agreed to prepare and deliver, on each Test Performance Report Date prior to the delivery of a Guarantee Enforcement Notice, to the Issuer, the Guarantor, the Representative of the Bondholders, the Asset Monitor, the Guarantor Calculation Agent, the Principal Seller and each Additional Seller(s), the Principal Servicer and each Additional Servicer(s) and the Rating Agencies, a report setting out the calculations carried out by it with respect of the Mandatory Tests and the Asset Coverage Test, as appropriate, (the "**Pre-Issuer Default Test Performance Report**").

The Post-Issuer Default Test Calculation Agent has agreed to prepare and deliver, on each Test Performance Report Date following the delivery of a Guarantee Enforcement Notice, to the Guarantor, the Representative of the Bondholders, the Asset Monitor, the Guarantor Calculation Agent, the Principal Seller and any Additional Seller(s), the Principal Servicer and any Additional Servicer(s) and the Rating Agencies, a report setting out the calculations carried out by it with respect of the Amortisation Tests (the "**Post Issuer Default Test Performance Report**").

If, on each Test Performance Report Date, the Pre-Issuer Default Test Calculation Report specifies the breach of any of the Mandatory Tests and/or the Asset Coverage, the Guarantor will: (i) within the Test Grace Period, or (ii) if a Breach of Tests Notice had already been delivered, within the Test Remedy Period, purchase Top-Up Assets or other Eligible Assets either by way of purchase or substitution, from the Principal Seller or Additional Seller (if any), in each case in accordance with the Master Assets Purchase Agreement and in an amount sufficient to ensure, also taking into account the information provided by the Pre-Issuer Default Test Calculation Agent in its notification of the breach, that as of the subsequent Test Calculation Date, all Tests will be satisfied with respect to the Cover Pool, as evidenced in the relevant Test Performance Report.

The parties to the Cover Pool Management Agreement have acknowledged that the aggregate amount of Top Up Assets included in the Cover Pool following such purchases may not be in excess of 15 per cent. of the aggregate outstanding principal amount of the Cover Pool or any other limit set out in accordance with any relevant law, regulation or interpretation of any authority (including, for the avoidance of doubts, the Bank of Italy or the Minister of Economy and Finance) which may be enacted with respect to Law 130, the Bank of Italy Regulation and the Decree No. 310. Should any such limit be breached at any time, the Issuer shall remedy as soon as possible to such breach, **provided that**, in the meanwhile, any Top-Up Assets exceeding such 15% Limit will not be considered in the calculation of the Tests.

Following the delivery of a Breach of Tests Notice, but prior to the delivery of a Guarantee Enforcement Notice, if within the Test Remedy Period the relevant Mandatory Tests and Asset Coverage Test is/are met according to the information included in the relevant Pre-Issuer Default Test Performance Report (unless any other Segregation Event has occurred and is outstanding and without prejudice to the obligation of the Representative of the Bondholders to deliver a subsequent Breach of Tests Notice at any time thereafter to the extent a further Segregation Event occurs), the Representative of the Bondholders will promptly deliver to the Issuer, the Guarantor, the Guarantor Calculation Agent, the Principal Seller and any Additional Seller(s), the Principal Servicer and any Additional Servicer(s), the Asset Monitor and the

Rating Agencies, a notice informing such parties that the Breach of Test Notice then outstanding has been revoked (the "**Breach of Tests Cure Notice**").

After the service of a Guarantee Enforcement Notice on the Guarantor, but prior to service of a Guarantor Default Notice, the Guarantor shall, upon instructions of the Portfolio Manager (as defined below) and **provided that** the Representative of the Bondholders has been duly informed, use its best effort to sell the Eligible Assets and/or Top-Up Assets included in the Cover Pool. The Eligible Assets and Top-Up Assets (any such Eligible Assets and Top-Up Assets, the "**Selected Assets**") will be selected from the Cover Pool on a random basis by the Principal Servicer on behalf of the Guarantor and the proceeds from any sale of Selected Assets will be credited to the Main Programme Account and applied as set out in the applicable Priority of Payments.

The Guarantor (or the Principal Servicer on behalf of the Guarantor) shall use its best efforts to sell the Eligible Assets and/or Top-Up Assets as follows:

(a) following the service of a Guarantee Enforcement Notice, within at least (**provided that** the Guarantor may commence before) the date falling (a) 30 days after the service of a Guarantee Enforcement Notice following a non-payment referred under Condition 11.2(a) or (b) in any other case of Guarantee Enforcement Notice delivered other than for a non-payment on a Series of Covered Bonds, six months prior to the Maturity Date of the Earliest Maturing Covered Bonds (the "**Earliest Maturing Sale Date**") and up to the earlier of (a) the date on which a breach of the Amortisation Test occurred, (b) the date on which the Pass Through Series of Covered Bonds have been redeemed in full and (c) the date on which a Guarantor Default Notice is delivered. The Guarantor shall use its best effort to sell the Selected Assets in an amount as close as possible to the amount necessary (i) to redeem in full the Pass Through Series and/or, only on the Earliest Maturing Sale Date, the Earliest Maturing Covered Bonds and (ii) to pay any interest amount due in respect of the Covered Bonds net of any amounts standing to the credit of the Programme Accounts, **provided that**, (1) prior to and following the sale of such Selected Assets, the Amortisation Test is complied with and (2) the Guarantor and the Portfolio Manager shall use their best effort to sell the Selected Assets, at the first attempt, at a price that ensures that the ratio between the aggregate Outstanding Principal Balance of the Cover Pool and the Outstanding Principal Amount of all Series of Covered Bonds remains unaltered following the sale of the relevant Selected Assets and repayment of the Pass Through Series and/or Earliest Maturing Covered Bonds (as the case may be). If the proceeds of the sale of Selected Assets raised on the first attempt are insufficient for the purposes set out above, the Guarantor shall repeat its attempt to sell the Selected Assets every sixth months thereafter until the earlier of (i) the date on which the Pass Through Series of Covered Bonds have been redeemed in full and (ii) the date on which a Guarantor Default Notice is delivered; and

(b) following the service of a Guarantee Enforcement Notice (and, in case of a Guarantee Enforcement Notice delivered as result of an Article 74 Event, prior to the delivery of an Article 74 Event Cure Notice), if a breach of the Amortisation Test occurs as specified in the relevant Test Performance Report, starting from the date falling 30 calendar days after the date on which a Test Performance Report specifies a breach of the Amortisation Test and in an amount as close as possible to the amount necessary (i) to redeem in full the Pass Through Series and (ii) to pay any interest amount due in respect of the Covered Bonds net of any amounts standing to the credit of the Programme Accounts. If the proceeds of the sale of the Eligible Assets and/or Top-Up

Assets raised on the first attempt are insufficient for the purposes set out above, the Guarantor shall repeat its attempt to sell Eligible Assets and/or Top-Up Assets every sixth months thereafter until the earlier of (i) the date on which the Pass Through Series of Covered Bonds have been redeemed in full and (ii) the date on which a Guarantor Default Notice is delivered;

(c) following the service of a Guarantor Default Notice the Guarantor, all the asset included in the Cover Pool, **provided that** the Guarantor will instruct the Portfolio Manager to use all reasonable endeavours to procure that such sale is carried out as quickly as reasonably practicable taking into account the market conditions at that time.

With respect to any sale to be carried out in accordance with the Cover Pool Management Agreement, within calendar 20 days following the delivery of a Guarantee Enforcement Notice, or as soon as practicable if necessary to effect timely payments under the Covered Bonds, the Guarantor will, through a tender process, appoint a portfolio manager (the "**Portfolio Manager**") of recognised standing on a basis intended to incentivise the Portfolio Manager to help the Guarantor to achieve the best price for the sale of the Assets (if such terms are commercially available in the market) and to advise it in relation to the sale of the Assets to purchasers (except where any of the Principal Seller and any Additional Seller (if any) (other than in case of *liquidazione coatta amministrativa* of such Principal Seller and/or Additional Seller (if any)) is buying the Assets in accordance with its right of pre-emption under the Master Assets Purchase Agreement).

Under the Cover Pool Management Agreement, the parties have acknowledge that, prior to the occurrence of a Segregation Event, or if earlier, the delivery of a Guarantee Enforcement Notice, the Principal Seller and/or the Additional Seller has the right, pursuant the Master Assets Purchase Agreement, to repurchase any Excess Assets transferred to the Guarantor **provided that** no Tests may be breached as a result of any repurchase under such clause and any such purchase may occur only in accordance with any relevant law, regulation or interpretation of any authority (including, for the avoidance of doubts, the Bank of Italy or the Minister of Economy and Finance) which may be enacted with respect to Law 130, the Bank of Italy Regulation and the Decree No. 310.

For further details, see section "*Credit structure - Tests*" below.

Governing law

The Cover Pool Management Agreement any non-contractual obligations arising out of or in connection with it are governed by Italian law.

DEED OF PLEDGE

On 18 June 2010, the Guarantor and the Representative of the Bondholders entered into the Deed of Pledge under which, without prejudice and in addition to any security, guarantee and other right provided by Law 130 securing the discharge of the Guarantor's obligations to the Bondholders and the Other Guarantor Creditors, the Guarantor has pledged in favour of the Bondholders and the Other Guarantor Creditors all monetary claims and rights and all the amount arising (including payment for claims, indemnities, damages, penalties, credits and guarantees) to which the Guarantor is or will be entitled to from time to time pursuant to certain Programme Documents, with the exclusion of the Cover Pool and the Collections. The security

created pursuant to the Deed of Pledge will become enforceable upon the service of a Guarantor Default Notice.

Governing law

The Deed of Pledge any non-contractual obligations arising out of or in connection with it are governed by Italian law.

ASSET MONITOR AGREEMENT

Please see section "*The Asset Monitor*" below.

CREDIT STRUCTURE

The Covered Bonds will be direct, unsecured, unconditional obligations of the Issuer. The Guarantor has no obligation to pay the Guaranteed Amounts under the Guarantee until the occurrence of an Issuer Event of Default and service by the Representative of the Bondholders on the Issuer and on the Guarantor of a Guarantee Enforcement Notice. The Issuer will not be relying on payments by the Guarantor in respect of the Term Loans or receipt of Interest Available Funds or Principal Available Funds from the Cover Pool in order to pay interest or repay principal under the Covered Bonds.

There are a number of features of the Programme which enhance the likelihood of timely and, as applicable, ultimate payments to Bondholders, as follows:

- the Guarantee provides credit support for the benefit of the Bondholders;
- the Mandatory Tests and, following the delivery of a Guarantee Enforcement Notice, the Amortisation Tests are intended to ensure that the Cover Pool is at all times sufficient to pay any interest and principal under the Covered Bonds;
- prior to the delivery of a Guarantee Enforcement Notice, the Asset Coverage Test is intended to test the asset coverage of the Guarantor's assets in respect of the Covered Bonds following the service of a Guarantee Enforcement Notice, applying for the purpose of such coverage an Asset Percentage factor determined in order to provide a degree of over-collateralisation with respect to the Cover Pool;
- the Swap Agreements are intended to hedge certain interest rate, current or other risks in respect of amounts received and amounts payable by the Guarantor;
- a Reserve Account will be established which will build up over time using excess cash flow from Interest Available Funds; and
- under the terms of the Cash Allocation, Management and Payment Agreement, the Cash Manager has agreed to invest the moneys standing to the credit of the Main Programme Account and the Reserve Account in purchasing Eligible Investments.

Certain of these factors are considered more fully in the remainder of this section.

Guarantee

The Guarantee provided by the Guarantor guarantees payment of Guaranteed Amounts when the same become Due for Payment in respect of all Covered Bonds issued under the Programme in accordance with the relevant Priority of Payments. The Guarantee will not guarantee any other amount becoming payable in respect of the Covered Bonds for any other reason, including any accelerated payment pursuant to Condition 12.2 (*Issuer Event of Default*) following the delivery of a Guarantee Enforcement Notice. In this circumstance (and until a Guarantor Event of Default occurs and a Guarantor Default Notice is served), the Guarantor's obligations will only be to pay the Guaranteed Amounts as they fall Due for Payment. Payments to be made by the Guarantor under the Guarantee will be made subject to, and in accordance with, the relevant Priority of Payments, as applicable.

See further "*Description of the Programme Documents - Guarantee*", as regards the terms of the Guarantee. See "*Cashflows - Guarantee Priority of Payments*", as regards the payment of amounts payable by the Guarantor to Bondholders and other creditors following the occurrence of an Issuer Event of Default.

Tests

Under the terms of the Cover Pool Management Agreement, the Issuer and the Additional Seller(s) must ensure that on each Test Calculation Date and/or Quarterly Calculation Date, as the case may be, the Cover Pool is in compliance with the relevant Tests described below. If on any Test Calculation Date or Quarterly Test Calculation Date, as the case may be, the relevant Test Performance Report specifies that the Cover Pool is not in compliance with the relevant Test, then the Principal Seller, (and/or any Additional Seller(s) in respect of each relevant New Portfolio transferred to the Guarantor) will either (i) sell additional Eligible Assets and/or Top-Up Assets to the Guarantor for an amount sufficient to allow the relevant Test to be met on the next following Test Calculation Date as determined in the immediately following Test Performance Report, in accordance with the Master Assets Purchase Agreement and the Cover Pool Management Agreement, to be financed through the proceeds of Term Loans to be granted by the Principal Seller (and/or any Additional Seller, if any) or (ii) substitute any relevant assets in respect of which the right of repurchase can be exercised under the terms of the Master Assets Purchase Agreement with new Eligible Assets, for an amount sufficient to allow the relevant Test to be met on the next following Test Calculation Date as determined in the immediately following Test Performance Report.

If, within the Test Grace Period the relevant breach of the Tests is not remedied in accordance with the terms of the Cover Pool Management Agreement, the Representative of the Bondholders will deliver a Breach of Test Notice and as a consequence (i) no further Series or Tranche of Covered Bonds may be issued by the Issuer; (ii) there shall be no further payments to the Subordinated Lender under any relevant Term Loan, other than where necessary for the purpose of complying with the 15% Limit in accordance with the provisions of Decree 310 and the Bank of Italy Regulations as better specified in the Cover Pool Management Agreement (and to the extent that no purchase of Eligible Assets is possible to this effect in accordance with the provisions of the Master Assets Purchase Agreement and the Cover Pool Management Agreement and/or in compliance with the limits set out in the Bank of Italy Regulations); (iii) the purchase price for any Eligible Assets or Top-Up Assets to be acquired by the Guarantor shall be paid using the proceeds of a Term Loan or, with respect to Eligible Assets only, to the extent necessary to comply with the 15% Limit in accordance with the provisions of Decree 310 and the Bank of Italy Regulations as better specified in the Cover Pool Management Agreement, the Guarantor Available Funds; and (iv) payments due under the Covered Bonds will continue to be made by the Issuer until a Guarantee Enforcement Notice has been delivered.

MANDATORY TESTS

In order to ensure that the Cover Pool is sufficient to repay the Covered Bonds, the Issuer, the Principal Seller, any Additional Seller(s) (if any) shall ensure that the Mandatory Tests, being (i) the Nominal Value Test, (ii) the Net Present Value Test and (iii) the Interest Coverage Test, are satisfied in accordance with article 3 of Decree No. 310 and the provisions of this Agreement.

Starting from the First Issue Date and until the earlier of:

(a) the date on which all Series or Tranche of Covered Bonds issued in the context of the Programme have been cancelled or redeemed in full in accordance with the Terms and Conditions and the relevant Final Terms; and

(b) the date on which a Guarantee Enforcement Notice is delivered;

the Issuer, also in its capacity as Principal Seller, and any Additional Seller(s) (if any), jointly and severally undertake to procure that (i) on any Quarterly Test Calculation Date, and (ii) on any Test Calculation Date thereafter if on the immediately preceding Quarterly Test Calculation Date any of the Mandatory Test was breached, each of the Mandatory Tests described in this Clause 2 is met with respect to the Cover Pool.

(A) *Nominal Value Test*

The Pre-Issuer Default Test Calculation Agent shall verify (i) on any Quarterly Test Calculation Date, and (ii) on any Test Calculation Date thereafter if on the immediately preceding Quarterly Test Calculation Date any of the Mandatory Test was breached, that the aggregate Outstanding Principal Balance of the Cover Pool shall be higher than or equal to the Principal Amount Outstanding of all Series or Tranche of Covered Bonds issued under the Programme and not cancelled or redeemed in full in accordance with their Terms and Conditions and the relevant Final Terms.

For the purpose of the Nominal Value Test, the Outstanding Principal Balance of the Cover Pool shall be considered as an amount equal to the "**Nominal Value**" and shall be, on each Quarterly Test Calculation Date (or following the breach of any of the Mandatory Test, on each relevant Test Calculation Date), at least equal to the aggregate Principal Amount Outstanding of all Series or Tranche of Covered Bonds issued under the Programme and not cancelled or redeemed in full in accordance with their Terms and Conditions and the relevant Final Terms (or the Euro Equivalent, if applicable). The Nominal Value Test shall be met if:

$$\mathbf{A + B \geq OBG}$$

where,

"**A**" is the Outstanding Principal Balance of each Eligible Assets (taking into account the loan to value limit imposed by law) and Top Up Assets comprised in the Cover Pool as at the relevant Quarterly Test Calculation Date (or following the breach of any of the Mandatory Test, as at the relevant Test Calculation Date);

"**B**" is the aggregate amount of all Principal Available Funds cash standing on the Programme Accounts; and

"**OBG**" means the aggregate Principal Amount Outstanding of all Series or Tranche of Covered Bonds issued under the Programme and not cancelled or redeemed in full in accordance with their Terms and Conditions and the relevant Final Terms (or the Euro Equivalent, if applicable).

The calculation above will be performed without taking into account any Top-Up Assets exceeding the 15% Limit.

The Nominal Value Test will always be deemed as met to the extent that the Asset Coverage Test is met, as of the relevant Quarterly Test Calculation Date or the relevant Test Calculation

Date thereafter if on the immediately preceding Quarterly Test Calculation Date any of the Mandatory Test was breached.

(B) *Net Present Value Test*

The Pre-Issuer Default Test Calculation Agent shall verify (i) on any Quarterly Test Calculation Date, and (ii) on any Test Calculation Date thereafter if on the immediately preceding Quarterly Test Calculation Date any of the Mandatory Test was breached, that the net present value of the Cover Pool (including the payments of any nature expected to be received by the Guarantor with respect to any Swap Agreement), net of all the costs to be borne by the Guarantor (including the costs of any nature expected or due with respect to any Swap Agreement) shall be higher than or equal to the net present value of all Series or Tranche of Covered Bonds issued under the Programme and not cancelled or redeemed in full in accordance with their Terms and Conditions and the relevant Final Terms.

The Net Present Value Test shall be met if:

$$\mathbf{A+B+C-D \geq NPVOBG}$$

where,

"**A**" is the net present value of all Eligible Assets (taking into account the loan to value limit imposed by law) and Top Up Assets comprised in the Cover Pool;

"**B**" is the net present value of each Swap Agreement;

"**C**" is the aggregate amount of the Principal Available Funds;

"**D**" is the net present value amount of any transaction costs to be borne by the Guarantor (including the costs of any nature expected to be borne or due with respect to any Swap Agreement); and

"**NPVOBG**" is the sum of the net present value of each Covered Bonds outstanding under the Programme.

The calculation above will be performed without taking into account any Top-Up Assets exceeding the 15% Limit.

(C) *Interest Coverage Test*

The Pre-Issuer Default Test Calculation Agent shall verify (i) on any Quarterly Test Calculation Date, and (ii) on any Test Calculation Date thereafter if on the immediately preceding Quarterly Test Calculation Date any of the Mandatory Test was breached, that the amount of interest and other revenues expected to be generated by the assets included in the Cover Pool (including the payments of any nature expected to be received by the Guarantor with respect to any Swap Agreement), net of all the costs expected to be borne by the Guarantor (including the cost of any nature expected or due with respect to any Swap Agreement), shall be higher than or equal to the amount of interest due on all Series or Tranche of Covered Bonds issued under the Programme and not cancelled or redeemed in full in accordance with their Terms and Conditions and the relevant Final Terms.

The Interest Coverage Test shall be met if:

$$(A+B+C+D-E) \geq IOBG$$

where,

"**A**" is (i) the interest component of all the Instalments falling due and payable from the relevant Quarterly Test Calculation Date (or following the breach of any of the Mandatory Test, on each relevant Test Calculation Date) to the date falling 12 months thereafter (taking into account the loan to value limit imposed by law) and (ii) all other amounts (other than principal amount) to be received in respect of the Eligible Assets and Top Up Assets comprised in the Cover Pool (other than those under letter (i) above) to the date falling 12 months thereafter;

"**B**" is any net interest amount expected to be received by the Guarantor under the Covered Bond Swap Agreement from the relevant Guarantor Calculation Date to the date falling 12 months thereafter;

"**C**" is any net interest amount expected to be received by the Guarantor under the Asset Swap Agreement from the relevant Guarantor Calculation Date to the date falling 12 months thereafter;

"**D**" is any interest expected to accrue in respect of the Principal Available Funds from the relevant Guarantor Calculation Date to the date falling 12 months thereafter;

"**E**" is the amount of all senior costs expected to be borne by the Guarantor during the period starting from the relevant Guarantor Calculation Date and ending on the date falling 12 months thereafter, under item from *First* to *Fourth* of the Pre-Issuer Default Interest Priority of Payments;

"**IOBG**" is the aggregate amount of all interest payments due and payable under all outstanding Covered Bonds on the Interest Payment Dates falling in the period starting from the relevant Guarantor Calculation Date (excluded) and ending on the date falling 12 months thereafter (such interest payments to be calculated with respect to the applicable interest rates set out in the relevant Final Terms as of the relevant Guarantor Calculation Date).

ASSET COVERAGE TEST

Starting from the First Issue Date and until the earlier of:

(a) the date on which all Series or Tranche of Covered Bonds issued in the context of the Programme have been cancelled or redeemed in full in accordance with the Terms and Conditions and the relevant Final Terms; and

(b) the date on which a Guarantee Enforcement Notice is delivered (and, in case the Issuer Event of Default consists of an Article 74 Event, to the extent that an Article 74 Event Cure Notice has been served);

the Issuer, also in its capacity as Principal Seller, and any Additional Seller(s) (if any), jointly and severally undertake to procure that, on any Test Calculation Date, the Asset Coverage Test is met with respect to the Cover Pool.

For the purposes of the Asset Coverage Test, the Pre-Issuer Default Test Calculation Agent shall verify that the Adjusted Aggregate Asset Amount is, on each Test Calculation Date prior to the delivery of an Issuer Default Notice, at least equal to the aggregate Principal Amount Outstanding of all Series or Tranche of Covered Bonds issued in the context of the Programme have been cancelled or redeemed in full in accordance with the Terms and Conditions and the relevant Final Terms (or the Euro Equivalent, if applicable).

The Asset Coverage Test shall be met if:

$$A-X+B+C-Z-Y-W \geq OBG$$

where,

"**A**" is equal to **MIN*AP**

where

"**MIN**" is the sum of the "**LTV Adjusted Principal Balance**" of each Mortgage Loan in the Cover Pool, which shall be the lower of (1) the actual Outstanding Principal Balance of the relevant Mortgage Loan in the Cover Pool as calculated on the last day of the immediately preceding Calculation Period, and (2) the Latest Valuation relating to that Mortgage Loan multiplied by M, where M is:

(a) equal to 80 per cent. for all the Receivables arising from Mortgage Loans (i) having no unpaid Instalments or (ii) Instalments not paid for less than 90 calendar days or (iii) which have been restructured in connection with the accession of the relevant borrower to the "*Combatti la crisi*" programme and in respect of which, as of the relevant Test Calculation Date, payments have been suspended for less than 90 calendar days or (iv) in respect of which the relevant borrower has requested a suspension of payment pursuant to the Decree of the Ministry of Finance of 25 February 2009 implementing Legislative Decree No. 185 of 29 November 2008, as converted into law through Law No. 2 of 28 January 2009 (*Decreto Anticrisi*), or under the renegotiation scheme for distressed borrowers signed by the Italian Banks Association (ABI) on 18 December 2009 (*Piano Famiglie*), during the suspension period **provided that**, as of the relevant Test Calculation Date, such suspension period is lower than 90 calendar days;

(b) equal to 40 per cent. for all the Receivables arising from Mortgage Loans (i) having Instalments not paid for more than 90 calendar days but less than 180 calendar days or (ii) which have been restructured in connection with the accession of the relevant borrower to the "*Combatti la crisi*" programme and in respect of which, as of the relevant Test Calculation Date, payments have been suspended for more than 90 calendar days but less than 180 calendar days or (iii) in respect of which the relevant borrower has requested a suspension of payment pursuant to the Decree of the Ministry of Finance of 25 February 2009 implementing Legislative Decree No. 185 of 29 November 2008, as converted into law through Law No. 2 of 28 January 2009 (*Decreto Anticrisi*), or under the renegotiation scheme for distressed borrowers signed by the Italian Banks Association (ABI) on 18 December 2009 (*Piano Famiglie*), during the suspension period **provided that**, as of the relevant Test Calculation Date, such suspension period is greater than 90 calendar days but lower than 180 calendar days; and

(c) equal to 0 per cent. for all the Receivables arising from Mortgage Loans (i) having Instalments not paid for more than 180 calendar days) or (ii) which have been restructured in connection with the accession of the relevant borrower to the "*Combatti la crisi*" programme and in respect of which, as of the relevant Test Calculation Date, payments have been suspended for more than 180 calendar days or (iii) in respect of which the relevant borrower has requested a suspension of payment pursuant to the Decree of the Ministry of Finance of 25 February 2009 implementing Legislative Decree No. 185 of 29 November 2008, as converted into law through Law No. 2 of 28 January 2009 (*Decreto Anticrisi*), or under the renegotiation scheme for distressed borrowers signed by the Italian Banks Association (ABI) on 18 December 2009 (*Piano Famiglie*), during the suspension period **provided that**, as of the relevant Test Calculation Date, such suspension period is longer than 180 calendar days;

"**X**" is equal to the amount to be deducted from the LTV Adjusted Principal Balance of any Mortgage Loans in the Cover Pool in respect of which any of the following occurred during the immediately preceding Calculation Period: (a) the relevant Mortgage Loan was, in the immediately preceding Calculation Period, in breach of the representations and warranties contained in the Warranty and Indemnity Agreement (any such Mortgage Loan an "**Affected Loan**"); or (b) the relevant Seller, in any preceding Calculation Period, was in breach of any other material representation and warranty under the Master Assets Purchase Agreement and/or such relevant Servicer was, in any preceding Calculation Period, in breach of a material term of the Master Servicing Agreement.

Such amount shall, in all cases, be equal to (i) nil, as long as the Issuer's short term rating or the Issuer's long term rating is at least, respectively, "F1" or "A" by Fitch or the Issuer's short term rating is at least "P-1" or the Counterparty risk rating (if available) is at least "Baa3(cr)" by Moody's or the Issuer's long term rating is at least "BBB" by DBRS, **provided that** the relevant Seller has indemnified the Guarantor or otherwise cured such breach, to the extent required by the terms of the Warranty and Indemnity Agreement or the relevant Seller or Servicer has otherwise cured such breach in accordance with the relevant Programme Documents; (ii)(A) in respect of the Affected Loan, an amount equal to the LTV Adjusted Principal Balance of the relevant Affected Loan or Affected Loans (as calculated on the last day of the immediately preceding Calculation Period); or (ii)(B) in respect of the Mortgage Loan referred to in letter (b) above, an amount equal to the resulting financial loss incurred by the Guarantor in the immediately preceding Calculation Period (such financial loss to be calculated by the Guarantor Calculation Agent without double counting and to be reduced by any amount paid, in cash or in kind, to the Guarantor by the relevant Seller to indemnify the Guarantor for such financial loss) (any such loss a "**Breach Related Loss**");

"**AP**" is the Asset Percentage;

and

"**B**" is the aggregate amount of the Principal Available Funds;

"**C**" is the aggregate Outstanding Principal Balance of any Eligible Assets and/or Top-Up Assets (other than those under letter (A) above); and

"**Z**" is the weighted average remaining maturity of all Covered Bonds multiplied by the Principal Amount Outstanding of the Covered Bonds (or the Euro Equivalent, if applicable) multiplied by the Negative Carry Factor;

"**Y**" is equal to nil, as long as the Issuer's short term rating or the Issuer's long term rating is, respectively, at least "F1" and "A" by Fitch or the Issuer's short term rating is at least "P-1" or the deposit rating is at least "Baa3" by Moody's or the Issuer's long term rating is in accordance with the Minimum DBRS Rating by DBRS, otherwise it is equal to the Potential Set-Off Amounts (unless the calculation of such Potential Set-Off Amounts is no longer required in accordance with the Rating Agencies' criteria from time to time applicable);

"**W**" is equal to nil, as long as the Issuer's short term rating or the Issuer's long term rating is, respectively, at least "F1" and "A" by Fitch or the Issuer's short term rating is at least "P-1" or the Counterparty risk rating (if available) is at least "Baa3(cr)" by Moody's or the Issuer's long term rating is in accordance with the Minimum DBRS Rating by DBRS, otherwise it is equal to the Potential Commingling Amount (unless the calculation of such Potential Commingling Amount is no longer required in accordance with the Rating Agencies' criteria from time to time applicable).

The calculation above will be performed without taking into account any Top-Up Assets exceeding the 15% Limit.

"**Potential Commingling Amount**" means an amount of collection which may be subject to commingling risk in case of an Insolvency Event of the Servicer, as calculated by the Pre-Issuer Default Test Calculation Agent in an amount which shall not prejudice the rating assigned from time to time to the Covered Bonds in accordance with the criteria of the Rating Agencies.

For the avoidance of doubt, it is understood that, if upon a downgrading of the Issuer's rating assigned (1) by Fitch below "F1" with respect to the Issuer's short term rating or "A", with respect to the Issuer's long term rating, or (2) by Moody's below "P-1" with respect to the Issuer's short term rating, or "Baa3(cr)" with respect to the Counterparty risk rating (if available) or (3) by DBRS below the Minimum DBRS Rating with respect to the Issuer's long term rating and the remedies provided for under clause 5.2.1 of the Master Servicing Agreement have been put in place, the amount appropriate for the purposes of the definition of "Potential Commingling Amount" shall be equal to nil. If on the contrary the remedies provided for under clause 5.2.1 of the Master Servicing Agreement have not been put in place than the Potential Commingling Amount shall be deducted from the Asset Coverage Test.

"**Potential Set-Off Amounts**" means the aggregate outstanding principal balance of the Cover Pool that could potentially be lost as a result of the relevant Debtors exercising their set-off rights. Such amount will be calculated, only starting from the date on which the Issuer's short term rating or the Issuer's long term rating assigned by Fitch falls below, respectively, "F1" or "A" or the Issuer's short term rating or the deposit rating assigned by Moody's falls below, respectively, "P-1" and "Baa3" or the Issuer's long term rating falls below the Minimum DBRS Rating by DBRS, by the Pre-Issuer Default Test Calculation Agent in an amount which shall not prejudice the rating assigned from time to time to the Covered Bonds in accordance with the criteria of the Rating Agencies.

"**OBG**" means the aggregate Principal Amount Outstanding of all Series or Tranche of Covered Bonds issued under the Programme and not cancelled or redeemed in full in accordance with their Terms and Conditions and the relevant Final Terms (or the Euro Equivalent, if applicable).

AMORTISATION TEST

Starting from the date on which a Guarantee Enforcement Notice is delivered and until the earlier of

(a) the date on which all Series or Tranche of Covered Bonds issued in the context of the Programme have been cancelled or redeemed in full in accordance with the Terms and Conditions and the relevant Final Terms; and

(b) the date on which a Guarantor Default Notice is delivered;

the Guarantor undertakes to procure that on any Test Calculation Date, the Amortisation Test is met with respect to the Cover Pool, **provided that**, in case the Issuer Event of Default consists of an Article 74 Event, no Article 74 Event Cure Notice has been served.

For the purpose of the Amortisation Test, the Post-Issuer Default Test Calculation Agent shall verify that, on each Test Calculation Date, the outstanding principal balance of the Cover Pool is higher than or equal to the Euro Equivalent of the Principal Amount Outstanding of all Series or Tranche of Covered Bonds issued under the Programme and not cancelled or redeemed in full in accordance with their Terms and Conditions and the relevant Final Terms at the relevant Test Calculation Date.

The Amortisation Test shall be met if:

$$A+B+C-Z \geq OBG$$

where,

"**A**" is equal to MIN multiplied by Guarantee Asset Percentage (GAp)

For the purposes of the calculation of the Amortisation Test, the Guarantee Asset Percentage will be calculated as the ratio granting an overcollateralisation equal to 75 per cent. of the overcollateralisation resulting from the Asset Percentage used on the last Test Calculation Date preceding the service of a Guarantee Enforcement Notice. Thus the calculation of the Guarantee Asset Percentage is made on the basis of the following formula:

$$GAp = 1/(75\% * (1/AP-1)+1)$$

where

"**AP**" is the Asset Percentage used on the last Test Calculation Date preceding the service of a Guarantee Enforcement Notice.

"**MIN**" is the lower of:

1. the actual Outstanding Principal Balance of each Mortgage Loan as calculated on the last day of the immediately preceding Calculation Period; and

2. the Latest Valuation multiplied by M (where M is:

    (a) equal to 100 per cent. for all the Receivables arising from Mortgage Loans (i) having no unpaid Instalments or (ii) Instalments not paid for less than 90

calendar days or (iii) which have been restructured in connection with the accession of the relevant borrower to the "*Combatti la crisi*" programme and in respect of which, as of the relevant Test Calculation Date, payments have been suspended for less than 90 calendar days or (iv) in respect of which the relevant borrower has requested a suspension of payment pursuant to the Decree of the Ministry of Finance of 25 February 2009 implementing Legislative Decree No. 185 of 29 November 2008, as converted into law through Law No. 2 of 28 January 2009 (*Decreto Anticrisi*), or under the renegotiation scheme for distressed borrowers signed by the Italian Banks Association (ABI) on 18 December 2009 (*Piano Famiglie*), during the suspension period **provided that**, as of the relevant Test Calculation Date, such suspension period is lower than 90 calendar days;

(b) equal to 60 per cent. for all the Receivables arising from Mortgage Loans (i) having Instalments not paid for more than 90 calendar days but less than 180 calendar days or (ii) which have been restructured in connection with the accession of the relevant borrower to the "*Combatti la crisi*" programme and in respect of which, as of the relevant Test Calculation Date, payments have been suspended for more than 90 calendar days but less than 180 calendar days or (iii) in respect of which the relevant borrower has requested a suspension of payment pursuant to the Decree of the Ministry of Finance of 25 February 2009 implementing Legislative Decree No. 185 of 29 November 2008, as converted into law through Law No. 2 of 28 January 2009 (*Decreto Anticrisi*), or under the renegotiation scheme for distressed borrowers signed by the Italian Banks Association (ABI) on 18 December 2009 (*Piano Famiglie*), during the suspension period **provided that**, as of the relevant Test Calculation Date, such suspension period is greater than 90 calendar days but lower than 180 calendar days; and

(c) equal to 40 per cent. for all the Receivables arising from Mortgage Loans (i) having Instalments not paid for more than 180 calendar days) or (ii) which have been restructured in connection with the accession of the relevant borrower to the "*Combatti la crisi*" programme and in respect of which, as of the relevant Test Calculation Date, payments have been suspended for more than 180 calendar days or (iii) in respect of which the relevant borrower has requested a suspension of payment pursuant to the Decree of the Ministry of Finance of 25 February 2009 implementing Legislative Decree No. 185 of 29 November 2008, as converted into law through Law No. 2 of 28 January 2009 (*Decreto Anticrisi*), or under the renegotiation scheme for distressed borrowers signed by the Italian Banks Association (ABI) on 18 December 2009 (*Piano Famiglie*), during the suspension period **provided that**, as of the relevant Test Calculation Date, such suspension period is longer than 180 calendar days.

"**B**" the aggregate amount of the Principal Available Funds;

"**C**" is the aggregate outstanding principal balance of any Eligible Assets (other than those under letter (A) above); and or Top-Up Assets (not exceeding the 15% Limit);

"**Z**" is the weighted average remaining maturity of all Covered Bonds multiplied by the Principal Amount Outstanding of the Covered Bonds (or the Euro Equivalent, if applicable) multiplied by the "**Negative Carry Factor**"; and

"**OBG**" means the aggregate Principal Amount Outstanding of all Series or Tranche of Covered Bonds issued under the Programme and not cancelled or redeemed in full in accordance with their Terms and Conditions and the relevant Final Terms (or the Euro Equivalent, if applicable).

Breach of Tests

If on any Test Calculation Date or Quarterly Test Calculation Date, as the case may be, a Test Performance Report specifies that the Cover Pool is not in compliance with the relevant Test, then the Principal Seller, (and/or any Additional Seller(s) in respect of each relevant New Portfolio transferred to the Guarantor, will either:

(i) sell additional Eligible Assets and/or Top-Up Assets to the Guarantor for an amount sufficient to allow the relevant Test to be met on the next following Test Calculation Date as determined in the immediately following Test Performance Report, in accordance with the Master Assets Purchase Agreement and the Cover Pool Management Agreement, to be financed through the proceeds of Term Loans to be granted by the Principal Seller (and/or any Additional Seller(s)); or

(ii) substitute any relevant assets in respect of which the right of repurchase can be exercised under the terms of the Master Assets Purchase Agreement with new Eligible Assets, for an amount sufficient to allow the relevant Test to be met on the next following Test Calculation Date as determined in the immediately following Test Performance Report, or

(iii) take any other action that may be deemed appropriate to allow the relevant Tests to be cured on the next Test Calculation Date.

Failure to remedy Tests

If, within the Test Grace Period the relevant breach of the Tests is not remedied in accordance with the terms of the Cover Pool Management Agreement, the Representative of the Bondholders will deliver a Breach of Test Notice.

If, after the delivery of a Breach of Test Notice, the relevant breach of the Tests is not remedied, within the Test Remedy Period, in accordance with the terms of the Cover Pool Management Agreement, the Representative of the Bondholders will deliver a Guarantee Enforcement Notice.

If, after the delivery of a Guarantee Enforcement Notice (**provided that**, should such Issuer Default Notice consist of an Article 74 Event, an Article 74 Event Cure Notice has not been served), a breach of the Amortisation Test occurs, all Series of Covered Bonds will become immediately Pass Through Series.

Upon receipt of a Guarantee Enforcement Notice, the Guarantor shall dispose of the assets included in the Cover Pool.

Reserve Account

The Reserve Account is held in the name of the Guarantor and will build up over time using excess cash flows remaining on each Guarantor Payment Date after payments required to be made on such date have been made. On each Guarantor Payment Date, in accordance with the Priority of Payments, available funds shall be deposited by the Issuer in the Reserve Account

until the Reserve Amount equals the Required Reserve Amount for such Guarantor Payment Date. The Reserve Amount over and above the Required Reserve Amount will be used on each Guarantor Payment Date together with other Guarantor Available Funds, for making the payments required by the Priorities of Payment.

CASHFLOWS

As described above under "*Credit Structure*", until a Guarantee Enforcement Notice is served on the Guarantor, the Covered Bonds will be obligations of the Issuer only. The Issuer is liable to make payments when due on the Covered Bonds, whether or not it has received any corresponding payment from the Guarantor.

This section summarises the cashflows of the Guarantor only, as to the allocation and distribution of amounts standing to the credit of the Programme Accounts and their order of priority (all such orders of priority, the "**Priority of Payments**") (a) prior to an Issuer Event of Default and a Guarantor Event of Default, (b) following an Issuer Event of Default (but prior to a Guarantor Event of Default) and (c) following a Guarantor Event of Default.

Definitions

For the purposes hereof the Guarantor Available Funds are constituted by the Interest Available Funds and the Principal Available Funds, which will be calculated by BMPS on each Calculation Date.

"**Interest Available Funds**" means in respect of any Guarantor Payment Date, the aggregate of:

(i) any interest amounts collected by the Servicer in respect of the Cover Pool and credited into the Main Programme Account during the immediately preceding Collection Period;

(ii) all recoveries in the nature of interest received by the Servicer and credited to the Main Programme Account during the immediately preceding Collection Period;

(iii) all amounts of interest accrued (net of any withholding or expenses, if due) and paid on the Programme Accounts during the immediately preceding Collection Period;

(iv) any amounts standing to the credit of the Reserve Account in excess of the Required Reserve Amount, and following the service of a Guarantee Enforcement Notice, on the Guarantor, any amounts standing to the credit of the Reserve Account;

(v) any interest amounts standing to the credit of the Programme Accounts;

(vi) all interest amounts received from the Eligible Investments;

(vii) subject to item (ix) below, any amounts received under the Asset Swap Agreement and the Covered Bond Swap Agreement,

provided that, prior to the occurrence of a Guarantor Event of Default, any such amounts received on or after such Guarantor Payment Date (included) but prior to the next following Guarantor Payment Date (excluded) will be applied, together with any provision for such payments made on any preceding Guarantor Calculation Date, (i) to make payments in respect of interest due and payable, *pro rata* and *pari passu* in respect of each relevant Covered Bond Swap Agreement or, as the case may be, (ii) to make payments in respect of interest due on the Covered Bonds under the Guarantee, *pari passu* and *pro rata* in respect of each relevant Series or Tranche of Covered Bonds, or (iii) to make provision for the payment of such relevant proportion of such amounts to be paid on any other day up to the immediately following

Guarantor Payment Date, as the Guarantor Calculation Agent may reasonably determine, or otherwise;

(i) subject to item (ix) below, any amounts received under the Covered Bond Swap Agreements other than any Swap Collateral Excluded Amounts;

(ii) any swap termination payments received from a Swap Provider under any Swap Agreement;

provided that, prior to the occurrence of a Guarantor Event of Default, such amounts will be, to the extent permitted by the relevant Swap Agreement, net of any cost necessary to replace the swap provider and find an eligible swap counterparty to enter into a replacement swap agreement;

(i) all interest amounts received from the Principal Seller (or any Additional Seller, if any) by the Guarantor pursuant to the Master Assets Purchase Agreement during the immediately preceding Collection Period;

(ii) any amounts paid as Interest Shortfall Amount out of item (*First*) of the Pre-Issuer Default Principal Priority of Payments; and

(iii) any amounts (other than the amounts already allocated under other items of the Guarantor Available Funds) received by the Guarantor from any party to the Programme Documents during the immediately preceding Collection Period.

"**Principal Available Funds**" means in respect of any Guarantor Payment Date, the aggregate of:

(i) all principal amounts collected by the Servicer in respect of the Cover Pool and credited to the Main Programme Account of the Guarantor during the immediately preceding Collection Period;

(ii) all other recoveries in respect of principal received by the Principal Servicer (and any Additional Seller, if any) and credited to the Main Programme Account of the Guarantor during the immediately preceding Collection Period;

(iii) all principal amounts received by the Guarantor from the Seller pursuant to the Master Assets Purchase Agreement during the immediately preceding Collection Period;

(iv) the proceeds of any disposal of Assets and any disinvestment of Assets or Eligible Investments;

(v) any amounts granted by the Seller under the Subordinated Loan Agreement and not used to fund the payment of the Purchase Price for any Eligible Assets and/or Top-Up Asset;

(vi) all amounts in respect of principal (if any) received under any Swap Agreements other than any Swap Collateral Excluded Amounts;

(vii) any amounts paid out of item *Ninth* of the Pre-Issuer Default Interest Priority of Payments; and

(viii) any principal amounts standing to the credit of the Programme Accounts.

Pre-Issuer Default Interest Priority of Payments

The Interest Available Funds shall be applied on each Guarantor Payment Date in making the following payments and provisions in the following order of priority (in each case only if and to the extent that payments of a higher priority have been made in full):

1. (*First*), (a) to pay, *pari passu* and *pro rata* according to the respective amounts thereof, any Expenses (to the extent that amounts standing to the credit of the Expenses Account have been insufficient to pay such amounts) and (b) to credit to the Expenses Account such an amount as will bring the balance of such account up to (but not in excess of) the Retention Amount;

2. (*Second*), to pay any amount due and payable to the Representative of the Bondholders;

3. (*Third*), to pay, *pro rata* and *pari passu*, any amount due and payable to the Principal Servicer, the Additional Servicer(s) (if any), the Back-Up Servicer (if any), the Italian Account Bank, the English Account Bank, the Payments Account Bank, the Cash Manager, the Guarantor Calculation Agent, the Pre-Issuer Default Test Calculation Agent, the Guarantor Corporate Servicer, the Italian Back-Up Account Bank and the English Back-Up Account Bank;

4. (*Fourth*), *pro rata* and *pari passu*, to pay, or make a provision for payment of such proportion of, (i) any interest amounts due to the Asset Swap Provider and (ii) any interest amounts due to the Covered Bond Swap Provider(s), *pro rata* and *pari passu* in respect of each relevant Covered Bond Swap Agreement (including, in both cases, any termination payments due and payable by the Guarantor except where the swap counterparty is the Defaulting Party or the sole Affected Party (the "**Excluded Swap Termination Amounts**"));

5. (*Fifth*), to credit to the Reserve Account an amount required to ensure that the Reserve Amount is funded up to the Required Reserve Amount, as calculated on the immediately preceding Guarantor Calculation Date;

6. (*Sixth*), to pay any Loan Interest due and payable on such Guarantor Payment Date on each Term Loan to the Subordinated Lender(s) pursuant to the terms of the Subordinated Loan Agreement, **provided that** (i) no Segregation Event has occurred and is continuing on such Guarantor Payment Date; and (ii) if a Segregation Event has occurred and is continuing, any amount of interest on the Covered Bonds has been duly and timely paid by the Issuer;

7. (*Seventh*), upon the occurrence of a Servicer Termination Event, to credit all remaining Interest Available Funds to the Main Programme Account until such Servicer Termination Event is either remedied or waived by the Representative of the Bondholders or a new servicer is appointed;

8. (*Eighth*), to pay *pro rata* and *pari passu* in accordance with the respective amounts thereof any Excluded Swap Termination Amounts;

9. (*Ninth*), to transfer to the Principal Available Funds an amount equal to the Interest Shortfall Amount, if any, allocated on the immediately preceding Guarantor Payment

Date under item First of the Pre-Issuer Default Principal Priority of Payments and on any preceding Guarantor Payment Dates and not already repaid;

10. (*Tenth*), to pay to the Principal Seller and to the Additional Seller(s) (if any), any amount due and payable under the Programme Documents, to the extent not already paid or payable under other items of this Pre-Issuer Default Interest Priority of Payments;

11. (*Eleventh*), *pari passu* and *pro rata* according to the respective amounts thereof, (i) to pay any Premium on the Programme Term Loans and (ii) to repay any Excess Term Loan Amount, **provided that** no Segregation Event has occurred and is continuing.

Pre-Issuer Default Principal Priority of Payments

The Principal Available Funds shall be applied on each Guarantor Payment Date in making the following payments and provisions in the following order of priority (in each case only if and to the extent that payments of a higher priority have been made in full):

1. (*First*), to pay any amount payable as Interest Shortfall Amount;

2. (*Second*), to acquire New Portfolios and/or Top-Up Assets and/or other Eligible Assets (other than those funded through the proceeds of a Term Loan);

3. (*Third*), to pay, *pari passu* and *pro rata* in accordance with the respective amounts thereof: (a) any principal amounts due or to become due and payable to the relevant Swap Providers *pro rata* and *pari passu* in respect of each relevant Swap Agreement; and (b) (where appropriate, after taking into account any amounts in respect of principal to be received from a Swap Provider on such Guarantor Payment Date or such other date up to the next following Guarantor Payment Date as the Guarantor Calculation Agent may reasonably determine) on each Guarantor Payment Date that falls on an Interest Payment Date, the amounts (in respect of principal) due or to become due and payable under the Term Loan, provided in any case no Segregation Event has occurred and is continuing and/or, where applicable, **provided that** no amounts shall be applied to make a payment in respect of a Term Loan if the principal amounts outstanding under the relevant Series or Tranche of Covered Bonds which have fallen Due for Payment on such relevant Guarantor Payment Date have not been repaid in full by the Issuer.

Guarantee Priority of Payments

Following the delivery of a Guarantee Enforcement Notice, the Guarantor Available Funds shall be applied on each Guarantor Payment Date in making the following payments and provisions in the following order of priority (in each case only if and to the extent that payments of a higher priority have been made in full):

1. (*First*), (a) to pay, *pari passu* and *pro rata*, any Expenses (to the extent that amounts standing to the credit of the Expenses Account have been insufficient to pay such amounts) and (b) to credit to the Expenses Account such an amount as will bring the balance of such account up to (but not in excess of) the Retention Amount;

2. (*Second*), to pay any amount due and payable to the Representative of the Bondholders;

3. (*Third*), to pay, *pari passu* and *pro rata* according to the respective amounts thereof, any amount due and payable to the Principal Servicer, the Additional Servicer(s) (if any), the Back-Up Servicer (if any), the Italian Account Bank, the Guarantor Calculation Agent, the Guarantor Corporate Servicer, the Asset Monitor, the Principal Paying Agent, the Paying Agent(s) (if any), the Luxembourg Listing and Paying Agent, the Portfolio Manager (if any), the Pre-Issuer Default Test Calculation Agent, the Post-Issuer Default Test Calculation Agent, the Italian Back-Up Account Bank, the English Back-Up Account Bank and the Payments Account Bank;

4. (*Fourth*), *pari passu* and *pro rata* according to the respective amounts thereof, (i) any amount due to the Asset Swap Provider (including any termination payment due and payable by the Guarantor other than any Excluded Swap Termination Amounts); (ii) any interest amounts due to the Covered Bond Swap Provider(s), *pro rata* and *pari passu* in respect of each relevant Covered Bond Swap Agreement (including any termination payments due and payable by the Guarantor other than any Excluded Swap Termination Amounts); and (iii) on any Guarantor Payment Date, any interest due and payable on such Guarantor Payment Date (or that will become due and payable on the immediately succeeding Guarantor Payment Date) under the Guarantee in respect of each Pass Through Series, Series or Tranche of Covered Bonds *pari passu* and *pro rata* in respect of each such Pass Through Series, Series or Tranche of Covered Bonds;

5. (*Fifth*), *pari passu* and *pro rata* (a) in or towards payment on the Guarantor Payment Date or to make a provision for payment of such proportion of any relevant amount falling due up to the next following Guarantor Payment Date as the Guarantor Calculation Agent may reasonably determine, of the amounts in respect of principal due or to become due and payable to the relevant Swap Provider *pro rata* and *pari passu* in respect of each relevant Swap Agreement (including any termination payment due and payable by the Guarantor under the relevant Swap Agreement, other than any Excluded Swap Termination Amount) in accordance with the terms of the relevant Swap Agreement; (b) *pari passu* and *pro rata* among any Pass Through Series, Series or Tranche of Covered Bonds, in or towards payment or to make a provision for payment, on each Guarantor Payment Date (where appropriate, after taking into account any amounts in respect of principal to be received from a Covered Bond Swap Provider) of principal amounts (that are payable on any Pass Through Series and due and payable in respect of any other Series or Tranche of Covered Bonds on such Guarantor Payment Date or that will become payable on any Pass Through Series and due and payable in respect of any other Series or Tranche of Covered Bonds up to the immediately succeeding Guarantor Payment Date) under the Guarantee in respect of such Pass Through Series, Series or Tranche of Covered Bonds;

6. (*Sixth*), until each Series or Tranche of Covered Bonds has been fully repaid or repayment in full of the Covered Bonds has been provided for (such that the Required Redemption Amount has been accumulated in respect of each outstanding Series or Tranche of Covered Bonds), to credit any remaining amounts to the Main Programme Account;

7. (*Seventh*), to pay *pro rata* and *pari passu*, any Excluded Swap Termination Amount due and payable by the Guarantor;

8. (*Eighth*), to pay to the Principal Seller and to the Additional Seller(s) (if any) any amount due and payable under the Programme Documents, to the extent not already paid or payable under other items of this Guarantee Priority of Payments;

9. (*Ninth*), to pay *pari passu* and *pro rata* according to the respective amounts thereof any interest and principal amount outstanding and Premium (if any), on each Term Loan under the Subordinated Loan Agreement(s).

Post-enforcement Priority of Payments

Following a Guarantor Event of Default, the making of a demand under the Guarantee and the delivery of a Guarantor Default Notice by the Representative of the Bondholders, the Guarantor Available Funds shall be applied, on each Guarantor Payment Date, in making the following payments in the following order of priority:

1. (*First*), to pay, *pari passu* and *pro rata* according to the respective amounts thereof, any Expenses (to the extent that amounts standing to the credit of the Expenses Account have been insufficient to pay such amounts);

2. (*Second*), to pay any amount due and payable to the Representative of the Bondholders;

3. (*Third*), to pay, *pro rata* and *pari passu*, (i) any amount due and payable to the Principal Servicer, the Additional Servicer(s) (if any), the Back-Up Servicer (if any), the Italian Account Bank, the Guarantor Calculation Agent, the Guarantor Corporate Servicer, the Asset Monitor, the Principal Paying Agent, the Paying Agent(s) (if any), the Portfolio Manager (if any), the Italian Back-Up Account Bank, the English Back-Up Account Bank and the Payments Account Bank; (ii) amounts due to the Covered Bond Swap Provider(s) and the Asset Swap Provider and any other Swap Provider(s) (if any) other than any Excluded Swap Termination Amount; and (iii) amounts due under the Guarantee in respect of each Pass Through Series, Series or Tranche of Covered Bonds;

4. (*Fourth*), to pay *pro rata* and *pari passu*, any Excluded Swap Termination Amount due and payable by the Guarantor;

5. (*Fifth*), to pay to the Principal Seller and to the Additional Seller(s) (if any) any amount due and payable under the Programme Documents, to the extent not already paid or payable under other items of this Post-enforcement Priority of Payments;

6. (*Sixth*), to pay or repay any amounts outstanding under the Subordinated Loan Agreement(s).

DESCRIPTION OF THE COVER POOL

The Cover Pool is and will be comprised of (a) Mortgage Loans and the related collateral and (b) Asset Backed Securities, assigned to the Guarantor by the Principal Seller and/or the Additional Seller(s) in accordance with the terms of the Master Assets Purchase Agreement, (ii) any proceeds arising from the Swap Agreements and (iii) any other Eligible Assets in accordance with Law 130, the Decree No. 310 and the Bank of Italy Regulations and any other Top-Up Assets.

As at the date of this Prospectus, the Initial Portfolio and each New Portfolio (the "**Portfolio**") consists of Residential Mortgage Loans transferred by the Principal Seller and by Banca Antonveneta S.p.A., as Additional Seller to the Guarantor in accordance with the terms of the Master Assets Purchase Agreement, as more fully described under "*Description of the Programme Documents - Master Assets Purchase Agreement*".

The Debtors of the Receivables comprised in the Cover Pool were 180,065 as at 30 September 2018 and none of them has a debt equal to or higher than 20 per cent. of the value of the Cover Pool.

No revaluation of the relevant properties has been made by BMPS for the purpose of any issue under the Programme. Any valuation has been performed only as at the date of the origination of any Mortgage Loan.

The Cover Pool has characteristics that demonstrate capacity to produce funds to service any payment due and payable on the Covered Bonds.

As at 30 October 2018, the latest maturing asset within the Cover Pool will expire on 30 November 2057.

As at 30 October 2018, the total amount of assets within the Cover Pool is €10.311.868.900,61.

For the purposes hereof:

"**Initial Portfolio**" means the first portfolio of Receivables and related Security Interests purchased by the Guarantor on 25 May 2010, pursuant to the terms and subject to the conditions of the Master Assets Purchase Agreement.

"**Second Portfolio**" means the second portfolio of Receivables and related Security Interests purchased by the Guarantor on 29 November 2010, pursuant to the terms and subject to the conditions of the Master Assets Purchase Agreement.

"**Third Portfolio**" means the third portfolio of Receivables and related Security Interests purchased by the Guarantor on 28 February 2011, pursuant to the terms and subject to the conditions of the Master Assets Purchase Agreement.

"**BAV Portfolio**" means the first portfolio of Receivables and related Security Interests purchased by the Guarantor from BAV on 27 May 2011, pursuant to the terms and subject to the conditions of the Master Assets Purchase Agreement.

"**Fourth Portfolio**" means the fourth portfolio of Receivables and related Security Interests purchased by the Guarantor on 21 September 2011, pursuant to the terms and subject to the conditions of the Master Assets Purchase Agreement.

"**Fifth Portfolio**" means the fifth portfolio of Receivables and related Security Interests purchased by the Guarantor on 17 June 2013, pursuant to the terms and subject to the conditions of the Master Assets Purchase Agreement.

"**Sixth Portfolio**" means the sixth portfolio of Receivables and related Security Interests purchased by the Guarantor on 21 September 2015, pursuant to the terms and subject to the conditions of the Master Assets Purchase Agreement.

"**Seventh Portfolio**" means the seventh portfolio of Receivables and related Security Interests purchased by the Guarantor on 31 October 2016, pursuant to the terms and subject to the conditions of the Master Assets Purchase Agreement.

"**Eighth Portfolio**" means the eighth portfolio of Receivables and related Security Interests purchased by the Guarantor on 22 December 2016, pursuant to the terms and subject to the conditions of the Master Assets Purchase Agreement.

"**Ninth Portfolio**" means the ninth portfolio of Receivables and related Security Interests purchased by the Guarantor on 3 May 2018, pursuant to the terms and subject to the conditions of the Master Assets Purchase Agreement.

"**New Portfolio**" means any further portfolio of Assets (other than the Initial Portfolio) which may be purchased by the Guarantor pursuant to the terms and subject to the conditions of the Master Assets Purchase Agreement.

Eligibility Criteria

The sale of the Receivables and their related Security Interest and the transfer of any other Eligible Assets and Top-Up Asset to the Guarantor will be subject to various conditions (the "**Eligibility Criteria**") being satisfied on the relevant Valuation Date (except as otherwise indicated). The Eligibility Criteria with respect to each asset type will vary from time to time but will at all times include criteria so that both Italian law and Rating Agencies requirements are met. In addition, under the Master Assets Purchase Agreement it is established that the parties may amend the Criteria, **provided that** any such amendment shall be notified to the Representative of the Bondholders and the Rating Agencies.

Common Criteria for the transfer of the Receivables

The Receivables transferred and to be transferred from time to time to the Guarantor pursuant to the Master Assets Purchase Agreement shall and will meet the following criteria (the "**Common Criteria**") (to be deemed cumulative unless otherwise provided) on each relevant Valuation Date (or at such other date specified below):

Receivables arising from Mortgage Loans:

1. which are residential mortgage receivables, in respect of which the relevant amount outstanding added to the principal amount outstanding of any higher ranking mortgage loans secured by the same Real Estate Asset, does not exceed 80 per cent. of the value of the Real Estate Asset as at the relevant date of new valuation (*data di rivalutazione*), in accordance with Decree No. 310 and to which the 35 per cent. risk weighting applies;

2. that did not provide at the time of disbursement for any subsidy or other benefit in relation to principal or interest (*mutui agevolati*);

3. that have not been granted to public entities (*enti pubblici*), clerical entities (*enti ecclesiastici*) or public consortium (*consorzi pubblici*);

4. that are not consumer loans (*crediti al consumo*);

5. that are not *mutui agrari* pursuant to articles 43, 44 and 45 of the Consolidated Banking Act;

6. that are secured by a mortgage created over Real Estate Assets in accordance with applicable laws and regulations which are located in the Republic of Italy;

7. the payment of which is secured by a first economic ranking mortgage (*ipoteca di primo grado economico*), such term meaning (i) a first legal ranking mortgage (*ipoteca di primo grado legale*) or (ii) (A) a second or subsequent ranking priority mortgage in respect of which the lender secured by the first ranking priority mortgage is the Seller and with respect to which the obligations secured by the mortgage(s) ranking prior to such second or subsequent mortgage have been fully satisfied, or (B) a second or subsequent ranking priority mortgage in respect of which the obligations secured by the mortgage(s) ranking prior to such second or subsequent mortgage have been fully satisfied and the relevant lender has formally consented to the cancellation of the mortgage(s) ranking prior to such subsequent mortgage, or (C) a second or subsequent ranking priority mortgage in respect of which the lender secured by the mortgage(s) ranking prior to such second or subsequent mortgage is the Seller (even if the obligations secured by such ranking priority mortgage(s) have not been fully satisfied) and the Receivables secured by the prior ranking priority mortgages arise from Mortgage Loans meeting the Criteria;

8. in respect of which the hardening period (*periodo di consolidamento*) applicable to the relevant mortgage has expired and the relevant mortgage is not capable of being challenged pursuant to article 67 of the Bankruptcy Law and, if applicable, of art. 39, fourth paragraph of the Consolidated Banking Act;

9. that are fully disbursed and in relation to which there is no obligation or possibility to make additional disbursements;

10. for which at least an Instalment inclusive of principal has been paid before the Valuation Date (i.e. Mortgage Loans that are not in the pre-amortising phase);

11. in respect of which all other previous Instalments falling due before the transfer date have been fully paid or, as of the transfer date, did not have any Instalment pending for 30 days or more than 30 days from its due date;

12. that are governed by Italian law;

13. that have not been granted to individuals that as of the origination date were employees or former (*a riposo*) employees of Montepaschi Group (including also loans granted to two or more individuals, one of which was an employee or a manager of Montepaschi Group as of the transfer date);

14. that are denominated in Euro;

15. which provide for the payment by the Debtor of monthly, quarterly or semi-annual Instalments;

16. which are not additional mortgage loans (*mutui suppletivi*) (each being a mortgage loan secured with a mortgage over Real Estate Assets already mortgaged in connection with another mortgage loan (*mutuo fondiario*) granted by Banca Monte dei Paschi di Siena S.p.A.).

Common Criteria for the transfer of the Asset Backed Securities

The Asset Backed Securities to be transferred from time to time to the Guarantor pursuant to the Master Assets Purchase Agreement shall and will meet the following Common Criteria (to be deemed cumulative unless otherwise provided) on each relevant Valuation Date (or at such other date specified below):

1. "asset backed" securities issued in the context of securitisation transactions made pursuant to Law 130 of 30 April 1999, **provided that** at least 95 per cent. of the relevant securitised assets are receivables and securities as indicated in paragraphs a), b) and c) of article 2 of Decree of the Italian Ministry for the Economy and Finance No. 310 of 14 December 2006;

2. for which a risk weight not exceeding 20 per cent. is applicable in accordance with the rules regulating the standardised approach for determination of the financial requirements of the banks with respect to the credit risk, pursuant to European Directive number 48 of 2006 (*Disciplina prudenziale – metodo standardizzato*);

3. compliance with the requirements set out by the ECB Guidelines.

Specific Criteria for the transfer of the Receivables

The Receivables included in each Portfolio (other than the Initial Portfolio) to be transferred from time to time to the Guarantor under the Master Assets Purchase Agreement shall meet, in addition to the Common Criteria, further specific criteria (to be deemed cumulative unless otherwise provided), as at the relevant Valuation Date (or at such other date specified below) listed in the Master Assets Purchase Agreement under schedule 1, part IV relating to, *inter alia*, the amount of disbursement, the execution date, the disbursement date, the instalments, the relevant Mortgage Loan Agreements, the relevant Real Estate Assets, the relevant guarantor, the category of natural persons (*persone fisiche*) to which they have been granted, the ratio.

Specific Criteria for the transfer of the Asset Backed Securities

The Asset Backed Securities included in each Portfolio (other than the Initial Portfolio) to be transferred from time to time to the Guarantor under the Master Assets Purchase Agreement shall meet, in addition to the Common Criteria, further specific criteria (to be deemed cumulative unless otherwise provided), as at the relevant Valuation Date (or at such other date specified below)as listed in the Master Assets Purchase Agreement under schedule 1, part IV and relating to, *inter alia*, the name of the Issuer, the nominal amount, the maturity date, the outstanding principal balance, the issue date, the ISIN code and the applicable law.

Specific Criteria for the transfer of the Receivables included in the Initial Portfolio

The Receivables included in the Initial Portfolio transferred to the Guarantor, on 25 May 2010, under the Master Assets Purchase Agreement met, in addition to the Common Criteria, the following Specific Criteria (to be deemed cumulative unless otherwise provided), as at the relevant Valuation Date (or at such other date specified below):

Receivables arising from Mortgage Loans:

1. in respect of which the disbursed amount at the date of the disbursement is equal or greater than 10 per cent. of the value of the Real Estate Asset as at the relevant appraisal date (*data di perizia*);

2. in respect of which the relevant Mortgage Loan Agreement has been entered into after 1 January 2008 included;

3. in respect of which the disbursement date, without any consideration for the value date (*data valuta*) falls (i) no later than 31 December 2009 (included) in respect of the Mortgage Loans providing for the payment by the Debtor on a monthly basis; (ii) no later than 30 September 2009 (included) in respect of the Mortgage Loans providing for the payment by the Debtor on a quarterly basis; (iii) no later than 30 June 2009 (included) in respect of the Mortgage Loans providing for the payment by the Debtor on a semi-annual basis;

4. in respect of which all the Instalments falling due before the Valuation Date have been paid;

5. in respect which of no partial prepayments of undue Instalments were made;

6. in respect of which the disbursed amount is comprised between €20,000.00 (included) and €1,500,000.00 (included);

7. in respect of which the relevant Mortgage Loan Agreements expressly specify to have been granted for the purpose of purchasing or restructuring or purchasing and restructuring a property (including Mortgage Loan Agreements arising from the subrogation (*surroga*) of mortgage loans which had been granted for the purpose of purchasing/restructuring/purchasing and restructuring residential properties with specific destination of house of residence);

8. in respect of which the relevant Real Estate Asset falls within the following Italian cadastral categories: A1, A2, A3, A4, A5, A6, A7, A8, A9 or A11;

9. which have been granted by Banca Monte dei Paschi di Siena S.p.A., Banca Agricola Mantovana S.p.A. (incorporated as of 16 September 2008) and Banca Toscana S.p.A. (incorporated as of 24 March 2009);

10. which have been granted to natural persons (*persone fisiche*) resident in Italy who, in accordance with the classification criteria adopted by the Bank of Italy pursuant to Circular number 140 of 11 February 1991, as amended on 7 August 1998, fell into the category 600 ("*famiglie consumatrici*"), whose administrative profile falls under the "ordinary risk" category (this means loans in relation to which there are no unpaid instalments nor is there pending litigation);

11. which have been granted to one or more individuals (*persone fisiche o cointestatari*) (with the exclusion of enterprises owned by a single individual (*ditte individuali*) or *società di fatto*);

12. which were not disbursed by the branches indicated in the notice of assignment published in the Official Gazette of the Republic of Italy (*Gazzetta Ufficiale della Repubblica Italiana*) Section 2, number 149 of 29 December 2009;

13. not having a fixed Instalment and variable duration;

14. not disbursed through third party funds, i.e. loans disbursed, also in part, through funds of the European Investment Bank (B.E.I.) or of the Social Development Fund of the Council of Europe or of specific national public entities (*Enti pubblici nazionali*, i.e. *Cassa Depositi e Prestiti – Finanziarie Regionali*);

15. which have not been granted to Debtors who have taken part or have applied to take part to "*Combatti la crisi*", or any other similar initiatives promoted by BMPS, or the Convention between ABI and the main consumers' associations ("*Piano Famiglie*") of 18 December 2009;

16. which are not modular loans (in this context modular loans are loans with an initial period at a fixed interest rate and subsequent periods in which the Debtor, pursuant to predetermined contractual terms, has an option between (i) a contractually predetermined fixed rate and (ii) a floating rate based on a predetermined index (*indice*) and a spread);

17. which have not been renegotiated pursuant to Legislative Decree No. 93 of 2008, converted into Law number 126 of 24 July 2008;

18. in respect of which the ratio between the value of the registration of the relevant Mortgage and the disbursed amount, at the date of the disbursement, was comprised between 1.5 (included) and 5 (included);

19. which have not been granted to Debtors involved in the seismic events falling under the applicability of Law Decree number 39 of 28 April 2009, converted into Law number 74 of 24 June 2009;

20. which have not been fractionated (*mutui frazionati*);

21. which have not been granted in order to purchase properties which are under construction (*mutui edilizi*);

22. which are not Mortgage Loans that, although meeting these criteria, have an outstanding amount lower than another Mortgage Loan granted to the same Debtor that meets these criteria as well.

Specific Criteria for the transfer of the Receivables included in the Second Portfolio

The Receivables included in the Second Portfolio transferred to the Guarantor, on 29 November 2010, under the Transfer Agreement met, in addition to the Common Criteria, the following Specific Criteria (to be deemed cumulative unless otherwise provided), as at the relevant Valuation Date (or at such other date specified below):

Receivables arising from Mortgage Loans:

1. in respect of which the disbursed amount at the date of the disbursement is equal or greater than 10 per cent of the value of the Real Estate Asset as at the relevant appraisal date (*data di perizia*);

2. in respect of which the relevant Mortgage Loan Agreement has been entered into after 1 January 2008;

3. in respect of which the disbursement date falls no later than 31 July 2010;

4. in respect of which the redemption date (*data di svincolo*) falls no later than 30 September 2010

5. in respect of which all the Instalments falling due before the Valuation Date have been paid;

6. in respect which of no partial prepayments of undue Instalments were made;

7. in respect of which the disbursed amount is comprised between €20,000.00 (included) and €1,500,000.00 (included);

8. in respect of which the relevant Mortgage Loan Agreements expressly specify to have been granted for the purpose of purchasing or restructuring a property (including Mortgage Loan Agreements arising from the subrogation (*surroga*) of mortgage loans which had been granted for the purpose of purchasing/restructuring/purchasing and restructuring residential properties with specific destination of house of residence);

9. in respect of which the relevant Real Estate Asset falls within the following Italian cadastral categories: A1, A2, A3, A4, A5, A6, A7, A8, A9 or A11;

10. which have been granted by Banca Monte dei Paschi di Siena S.p.A., Banca Agricola Mantovana S.p.A. (acquired by BMPS on 16 September 2008) and Banca Toscana S.p.A. (acquired by BMPS on 24 March 2009);

11. which have been granted to natural persons (*persone fisiche*) resident in Italy who, in accordance with the classification criteria adopted by the Bank of Italy pursuant to Circular number 140 of 16 February 1991, as amended on 7 August 1998, fell into the category 600 ("*famiglie consumatrici*"), whose administrative profile falls under the "ordinary risk" (i.e. *rischio ordinario*) category (loans in relation to which there are no unpaid instalments nor there is any pending litigation);

12. which have been granted to one or more individuals (*persone fisiche o cointestatari*) (with the exclusion of enterprises owned by a single individual (*ditte individuali*) or *società di fatto*);

13. which were not granted by the branches indicated in the notice of assignment published in the Official Gazette of the Republic of Italy (*Gazzetta Ufficiale della Repubblica Italiana*) Section 2, number 149 of 29 December 2009;

14. not having a fixed Instalment and variable duration;

15. not disbursed through third party funds, i.e. loans disbursed, also in part, through funds of the European Investment Bank (B.E.I.) or of the Social Development Fund of the Council of Europe or of specific national public entities (*Enti pubblici nazionali*, i.e. *Cassa Depositi e Prestiti – Finanziarie Regionali*);

16. which have not been granted to Debtors who have taken part or have applied to take part to "*Combatti la crisi*", or any other similar initiatives promoted by BMPS, or the Convention between ABI and the main consumers' associations ("*Piano Famiglie*") of 18 December 2009;

17. which are not modular loans (in this context modular loans are loans with an initial period at a fixed interest rate and subsequent periods in which the Debtor, pursuant to predetermined contractual terms, has an option between (i) a contractually predetermined fixed rate and (ii) a floating rate based on a predetermined index (indice) and a spread);

18. which have not been renegotiated pursuant to Legislative Decree No. 93 of 2008, converted into Law number 126 of 24 July 2008;

19. in respect of which the ratio between the value of the registration of the relevant Mortgage and the disbursed amount, at the date of the disbursement, was comprised between 1.5 (included) and 5 (included);

20. which have not been granted to Debtors involved in the seismic events falling under the applicability of Law Decree number 39 of 28 April 2009, converted into Law number 74 of 24 June 2009;

21. which have not been fractionated (*mutui frazionati*);

22. which have not been granted in order to purchase properties which are under construction (*mutui edilizi*);

23. which are not Mortgage Loans that, although meeting these criteria, have an outstanding amount lower than another Mortgage Loan granted to the same Debtor that meets these criteria as well.

Specific Criteria for the transfer of the Receivables included in the Third Portfolio

The Receivables included in the Third Portfolio transferred to the Guarantor, on 28 February 2011, under the Transfer Agreement met, in addition to the Common Criteria, the following Specific Criteria (to be deemed cumulative unless otherwise provided), as at the relevant Valuation Date (or at such other date specified below):

Receivables arising from Mortgage Loans:

1. in respect of which the disbursed amount at the date of the disbursement is equal or greater than 1 per cent of the value of the Real Estate Asset as at the relevant appraisal date (*data di perizia*);

2. in respect of which the disbursement date, without any consideration for the value date (*data valuta*), falls no later than 31 December 2010 (included);

3. in respect of which all the Instalments falling due before the Valuation Date have been paid;

4. in respect which of no partial prepayments of undue Instalments were made;

5. in respect of which the Outstanding Principal is higher than €10,000.00 (included);

6. in respect of which the Outstanding Principal is lower than €1,500,000.00 (included);

7. in respect of which the relevant Real Estate Asset falls within the following Italian cadastral categories: A1, A2, A3, A4, A5, A6, A7, A8, A9 or A11;

8. which have been subject to, upon filing of the relevant request, the intermediation of branches of Banca Monte dei Paschi di Siena S.p.A., branches of Banca Agricola Mantovana S.p.A. (acquired by BMPS on 16 September 2008), branches of Banca Antonveneta S.p.A. (acquired by BMPS on 22 December 2008), branches of Banca Toscana S.p.A. (acquired by BMPS on 24 March 2009) and branches of Banca Personale S.p.A. (acquired by BMPS on 16 April 2010);

9. which have been granted to natural persons (*persone fisiche*) resident in Italy who, in accordance with the classification criteria adopted by the Bank of Italy pursuant to Circular number 140 of 11 February 1991, as amended on 7 August 1998, fell into the category 600 ("*famiglie consumatrici*"), 614 ("*artigiani*") and 615 ("*altre famiglie produttrici*") of the SAE Code (Business Activity Code) and whose administrative profile falls under the "ordinary risk" (i.e. *rischio ordinario*) category (loans in relation to which there are no unpaid instalments nor there is any pending litigation);

10. which have been granted to one or more individuals (*persone fisiche o cointestatari*) (with the exclusion of enterprises owned by a single individual (*ditte individuali*) or *società di fatto*);

11. which were not granted by the branches indicated in the notice of assignment published in the Official Gazette of the Republic of Italy (*Gazzetta Ufficiale della Repubblica Italiana*) Section 2, number 149 of 29 December 2009;

12. not disbursed through third party funds, i.e. loans disbursed, also in part, through funds of the European Investment Bank (B.E.I.) or of the Social Development Fund of the Council of Europe or of specific national public entities (*Enti pubblici nazionali*, i.e. *Cassa Depositi e Prestiti – Finanziarie Regionali*);

13. which have not been granted to Debtors who have taken part or have applied to take part to "*Combatti la crisi*", or any other similar initiatives promoted by BMPS, or the Convention between ABI and the main consumers' associations ("*Piano Famiglie*") of 18 December 2009;

14. which have not been renegotiated pursuant to Legislative Decree No. 93 of 2008, converted into Law number 126 of 24 July 2008;

15. in respect of which the ratio between the value of the registration of the relevant Mortgage and the disbursed amount, at the date of the disbursement, was comprised between 1.5 (included) and 5 (included);

16. which have not been granted to Debtors involved in the seismic events falling under the applicability of Law Decree number 39 of 28 April 2009, converted into Law number 74 of 24 June 2009;

17. with a floating rate whose spread, together with the relevant predetermined contractual index (*indice*), is lower than 2,35 per cent.;

18. with a fixed rate lower than 8 per cent.;

19. in respect of which the relevant mortgage value is higher than €10;

20. which are not Mortgage Loans that, although meeting these criteria, have an outstanding amount lower than another Mortgage Loan granted to the same Debtor that meets these criteria as well.

Specific Criteria for the transfer of the Receivables included in the BAV Portfolio

The Receivables included in the BAV Portfolio transferred to the Guarantor, on 27 May 2011, under the Transfer Agreement met, in addition to the Common Criteria, the following Specific Criteria (to be deemed cumulative unless otherwise provided), as at the relevant Valuation Date (or at such other date specified below):

Receivables arising from Mortgage Loans:

1. in respect of which the disbursed amount at the date of the disbursement is equal or greater than 1 per cent of the value of the Real Estate Asset as at the relevant appraisal date (*data di perizia*);

2. in respect of which the disbursed amount at the date of the disbursement is equal or lower than 120 per cent of the value of the Real Estate Asset as at the relevant appraisal date (*data di perizia*);

3. in respect of which the disbursement date, without any consideration for the value date (*data valuta*), falls no later than 31 December 2010 (included);

4. in respect of which all the Instalments falling due before the Valuation Date have been paid;

5. in respect of which of no partial prepayments of undue Instalments were made;

6. in respect of which the Outstanding Principal is equal or greater than €5,000.00 and lower than €2.000.000,00 (included);

7. in respect of which the relevant Real Estate Asset falls within the following Italian cadastral categories: A1, A2, A3, A4, A5, A6, A7, A8, A9 or A11;

8. which have been subject to, upon filing of the relevant request, the intermediation of branches of Banca Antonveneta S.p.A. and branches of Banca Agricola Mantovana S.p.A. (acquired by BMPS on 16 September 2008);

9. which have been granted to natural persons (*persone fisiche*) resident in Italy who, in accordance with the classification criteria adopted by the Bank of Italy pursuant to

Circular number 140 of 11 February 1991, as amended on 7 August 1998, fell into the category 600 ("*famiglie consumatrici*"), 614 ("*artigiani*") and 615 ("*altre famiglie produttrici*") of the SAE Code (*Business Activity Code*) and whose administrative profile falls under the "ordinary risk" (i.e. *rischio ordinario*) category (loans in relation to which there are no unpaid instalments nor there is any pending litigation);

10. which have been granted to one or more individuals (*persone fisiche o cointestatari*) (with the exclusion of enterprises owned by a single individual (*ditte individuali*) or *società di fatto*);

11. which were not granted by the branches indicated in the notice of assignment published in the Official Gazette of the Republic of Italy (*Gazzetta Ufficiale della Repubblica Italiana*) Section 2, number 149 of 29 December 2009;

12. not disbursed through third party funds, i.e. loans disbursed, also in part, through funds of the European Investment Bank (B.E.I.) or of the Social Development Fund of the Council of Europe or of specific national public entities (*Enti pubblici nazionali*, i.e. *Cassa Depositi e Prestiti – Finanziarie Regionali*);

13. which have not been granted to Debtors who have taken part or have applied to take part to "*Combatti la crisi*", or any other similar initiatives promoted by BMPS, or the Convention between ABI and the main consumers' associations ("*Piano Famiglie*") of 18 December 2009;

14. which have not been renegotiated pursuant to Legislative Decree No. 93 of 2008, converted into Law number 126 of 24 July 2008;

15. in respect of which the ratio between the value of the registration of the relevant Mortgage and the disbursed amount, at the date of the disbursement, was comprised between 1.5 (included) and 5 (included);

16. which have not been granted to Debtors involved in the seismic events falling under the applicability of Law Decree number 39 of 28 April 2009, converted into Law number 74 of 24 June 2009;

17. with a floating rate whose spread, together with the relevant predetermined contractual index (*indice*), is lower than 3 per cent.;

18. with a fixed rate equal or lower than 8 per cent.;

19. in respect of which the relevant mortgage value is higher than €10;

20. which the residual debt is higher than €10,000.00 (included);

21. which are not Mortgage Loans that, although meeting these criteria, have an outstanding amount lower than another Mortgage Loan granted to the same Debtor that meets these criteria as well.

Specific Criteria for the transfer of the Receivables included in the Fourth Portfolio

The Receivables included in the Fourth Portfolio transferred to the Guarantor, on 21 September 2011, under the Transfer Agreement met, in addition to the Common Criteria, the following

Specific Criteria (to be deemed cumulative unless otherwise provided), as at the relevant Valuation Date (or at such other date specified below):

Receivables arising from Mortgage Loans:

1. in respect of which the disbursed amount at the date of the disbursement is equal or greater than 1 per cent of the value of the Real Estate Asset as at the relevant appraisal date (*data di perizia*);

2. which have been granted to natural persons (persone fisiche) resident in Italy who, in accordance with the classification criteria adopted by the Bank of Italy pursuant to Circular number 140 of 11 February 1991, as amended on 7 August 1998, fell into the category 600 ("*famiglie consumatrici*"), 614 ("*artigiani*") and 615 ("*altre famiglie produttrici*") of the SAE Code (Business Activity Code) and whose administrative profile falls under the "ordinary risk" (i.e. *rischio ordinario*) category (loans in relation to which there are no unpaid instalments nor there is any pending litigation);

3. in respect of which the disbursed amount at the date of the disbursement is equal or lower than 120 per cent of the value of the Real Estate Asset as at the relevant appraisal date (*data di perizia*) for mortgage loans granted to natural persons (*persone fisiche*) who fell into the category 600 ("*famiglie consumatrici*") and is equal or lower than 80 per cent of the value of the Real Estate Asset as at the relevant appraisal date (*data di perizia*) for mortgage loans granted to natural persons (*persone fisiche*) who fell into the category 614 ("*artigiani*") and 615 ("*altre famiglie produttrici*");

4. in respect of which the disbursement date, without any consideration for the value date (*data valuta*), falls no later than 30 June 2011 (included);

5. in respect of which all the Instalments falling due before the Valuation Date have been paid;

6. in respect of which no partial prepayments of undue Instalments were made;

7. in respect of which the Outstanding Principal is equal or greater than €5,000.00

8. in respect of which the Outstanding Principal is lower than €2.000.000,00 (included);

9. in respect of which the relevant Real Estate Asset falls within the following Italian cadastral categories: A1, A2, A3, A4, A5, A6, A7, A8, A9 or A11;

10. which have been subject to, upon filing of the relevant request, the intermediation of branches of Banca Monte dei Paschi di Siena S.p.A., branches of Banca Agricola Mantovana S.p.A. (acquired by BMPS on 16 September 2008), branches of Banca Antonveneta S.p.A. (acquired by BMPS on 22 December 2008), branches of Banca Toscana S.p.A. (acquired by BMPS on 24 March 2009) and branches of Banca Personale S.p.A. (acquired by BMPS on 16 April 2010);

11. which have been granted to one or more individuals (*persone fisiche o cointestatari*) (with the exclusion of enterprises owned by a single individual (*ditte individuali*) or *società di fatto*);

12. not disbursed through third party funds, i.e. loans disbursed, also in part, through funds of the European Investment Bank (B.E.I.) or of the Social Development Fund of the Council of Europe or of specific national public entities (*Enti pubblici nazionali*, i.e. *Cassa Depositi e Prestiti – Finanziarie Regionali*);

13. which have not been granted to Debtors who have taken part or have applied to take part to "*Combatti la crisi*", or any other similar initiatives promoted by BMPS, or the Convention between ABI and the main consumers' associations ("*Piano Famiglie*") of 18 December 2009;

14. which have not been renegotiated pursuant to Legislative Decree No. 93 of 2008, converted into Law number 126 of 24 July 2008;

15. in respect of which the ratio between the value of the registration of the relevant Mortgage and the disbursed amount, at the date of the disbursement, was comprised between 1.5 (included) and 5 (included);

16. which have not been granted to Debtors involved in the seismic events falling under the applicability of Law Decree number 39 of 28 April 2009, converted into Law number 74 of 24 June 2009;

17. with a floating rate whose spread, together with the relevant predetermined contractual index (*indice*), is lower than 3 per cent.;

18. with a fixed rate equal or lower than 8 per cent.;

19. in respect of which the relevant mortgage value is higher than €10;

20. which are not Mortgage Loans that, although meeting these criteria, have an outstanding amount lower than another Mortgage Loan granted to the same Debtor that meets these criteria as well.

Specific Criteria for the transfer of the Receivables included in the Fifth Portfolio

The Receivables included in the Fifth Portfolio transferred to the Guarantor, on 17 June 2013, under the Transfer Agreement met, in addition to the Common Criteria, the following Specific Criteria (to be deemed cumulative unless otherwise provided), as at the relevant Valuation Date (or at such other date specified below):

Receivables arising from Mortgage Loans:

1. in respect of which the disbursed amount at the date of the disbursement is equal or greater than 1 per cent. of the value of the Real Estate Asset as at the relevant appraisal date (*data di perizia*);

2. which have been granted to natural persons (*persone fisiche*) resident in Italy who, in accordance with the classification criteria adopted by the Bank of Italy pursuant to Circular number 140 of 11 February 1991, as amended on 7 August 1998, fell into the category 600 ("*famiglie consumatrici*"), 614 ("*artigiani*") and 615 ("*altre famiglie produttrici*") of the SAE Code (Business Activity Code) and whose administrative profile falls under the "ordinary risk" (i.e. *rischio ordinario*) category (loans in relation to which there are no unpaid instalments nor there is any pending litigation);

3. in respect of which the disbursed amount at the date of the disbursement is equal or lower than 100 per cent. of the value of the Real Estate Asset as at the relevant appraisal date (*data di perizia*);

4. in respect of which the disbursement date, without any consideration for the value date (*data valuta*), falls no later than 30 March 2013 (included);

5. in respect of which all the Instalments falling due before the Valuation Date have been paid;

6. in respect of which no partial prepayments of undue Instalments were made;

7. in respect of which the Outstanding Principal is equal or greater than €5,000.00

8. in respect of which the Outstanding Principal is lower than €2,000,000.00 (included);

9. in respect of which the relevant Real Estate Asset falls within the following Italian cadastral categories: A1, A2, A3, A4, A5, A6, A7, A8, A9 or A11;

10. which have been subject to, upon filing of the relevant request, the intermediation of branches of Banca Monte dei Paschi di Siena S.p.A., branches of Banca Agricola Mantovana S.p.A. (acquired by BMPS on 16 September 2008), branches of Banca Antonveneta S.p.A. (acquired by BMPS on 22 December 2008), branches of Banca Toscana S.p.A. (acquired by BMPS on 24 March 2009) and branches of Banca Personale S.p.A. (acquired by BMPS on 16 April 2010);

11. which have been granted to one or more individuals (*persone fisiche o cointestatari*) (with the exclusion of enterprises owned by a single individual (*ditte individuali*) or *società di fatto*);

12. not disbursed through third party funds, i.e. loans disbursed, also in part, through funds of the European Investment Bank (B.E.I.) or of the Social Development Fund of the Council of Europe or of specific national public entities (*Enti pubblici nazionali*, i.e. *Cassa Depositi e Prestiti – Finanziarie Regionali*);

13. which have not been granted to Debtors who have taken part or have applied to take part to "*Combatti la crisi*", or any other similar initiatives promoted by BMPS, or the Convention between ABI and the main consumers' associations ("*Piano Famiglie*") of 18 December 2009;

14. which have not been renegotiated pursuant to Legislative Decree No. 93 of 2008, converted into Law number 126 of 24 July 2008;

15. in respect of which the ratio between the value of the registration of the relevant Mortgage and the disbursed amount, at the date of the disbursement, was comprised between 1.5 (included) and 5 (included);

16. which have not been granted to Debtors involved in the seismic events falling under the applicability of Law Decree number 39 of 28 April 2009, converted into Law number 74 of 24 June 2009;

17. with a floating rate whose spread, together with the relevant predetermined contractual index (*indice*), is lower than 3 per cent.;

18. with a fixed rate equal or lower than 8 per cent.;

19. in respect of which the relevant mortgage value is higher than €10.

Specific Criteria for the transfer of the Receivables included in the Sixth Portfolio

The Receivables included in the Sixth Portfolio transferred to the Guarantor, on 21 September 2015, under the Transfer Agreement met, in addition to the Common Criteria, the following Specific Criteria (to be deemed cumulative unless otherwise provided), as at the relevant Valuation Date (or at such other date specified below):

Receivables arising from Mortgage Loans:

1. in respect of which the disbursed amount at the date of the disbursement is equal or greater than 1 per cent. of the value of the Real Estate Asset as at the relevant appraisal date (*data di perizia*);

2. which have been granted to natural persons (*persone fisiche*) resident in Italy who, in accordance with the classification criteria adopted by the Bank of Italy pursuant to Circular number 140 of 11 February 1991, as amended on 7 August 1998, fell into the category 600 ("*famiglie consumatrici*"), 614 ("*artigiani*") and 615 ("*altre famiglie produttrici*") of the SAE Code (Business Activity Code) and whose administrative profile falls under the "ordinary risk" (i.e. *rischio ordinario*) category (loans in relation to which there are no unpaid instalments nor there is any pending litigation);

3. in respect of which the disbursed amount at the date of the disbursement is equal or lower than 100 per cent. of the value of the Real Estate Asset as at the relevant appraisal date (*data di perizia*);

4. in respect of which the disbursement date, without any consideration for the value date (*data valuta*), falls no later than 30 June 2015 (included);

5. in respect of which all the Instalments falling due before the Valuation Date have been paid;

6. in respect of which no partial prepayments of undue Instalments were made;

7. in respect of which the Outstanding Principal is equal or greater than €5,000.00

8. in respect of which the Outstanding Principal is lower than €2.000.000,00 (included);

9. in respect of which the relevant Real Estate Asset falls within the following Italian cadastral categories: A1, A2, A3, A4, A5, A6, A7, A8, A9 or A11;

10. which have been subject to, upon filing of the relevant request, the intermediation of branches of Banca Monte dei Paschi di Siena S.p.A., branches of Banca Agricola Mantovana S.p.A. (acquired by BMPS on 16 September 2008), branches of Banca Antonveneta S.p.A. (acquired by BMPS on 22 December 2008), branches of Banca

Toscana S.p.A. (acquired by BMPS on 24 March 2009) and branches of Banca Personale S.p.A. (acquired by BMPS on 16 April 2010);

11. which have been granted to one or more individuals (*persone fisiche o cointestatari*) (with the exclusion of enterprises owned by a single individual (*ditte individuali*) or *società di fatto*);

12. not disbursed through third party funds, i.e. loans disbursed, also in part, through funds of the European Investment Bank (B.E.I.) or of the Social Development Fund of the Council of Europe or of specific national public entities (*Enti pubblici nazionali*, i.e. *Cassa Depositi e Prestiti – Finanziarie Regionali*);

13. which have not been granted to Debtors who have taken part or have applied to take part to "*Combatti la crisi*", or any other similar initiatives promoted by BMPS, or the Convention between ABI and the main consumers' associations ("*Piano Famiglie*") of 18 December 2009 as prorogated on 26 January 2011 and as amended on 19 July 2011;

14. which have not been renegotiated pursuant to Legislative Decree No. 93 of 2008, converted into Law number 126 of 24 July 2008 and pursuant to the Convention between the MEF and ABI on 19 June 2008;

15. in respect of which the ratio between the value of the registration of the relevant Mortgage and the disbursed amount, at the date of the disbursement, was comprised between 1.5 (included) and 5 (included);

16. which have not been granted to Debtors involved in the seismic events falling under the applicability of Law Decree number 39 of 28 April 2009, converted into Law number 74 of 24 June 2009;

17. with a floating rate whose spread, together with the relevant predetermined contractual index (*indice*), is lower than 5 per cent.;

18. with a fixed rate equal or lower than 8 per cent.;

19. in respect of which the relevant mortgage value is higher than €10.

Specific Criteria for the transfer of the Receivables included in the Seventh Portfolio

The Receivables included in the Sixth Portfolio transferred to the Guarantor, on 31 October 2016, under the Transfer Agreement met, in addition to the Common Criteria, the following Specific Criteria (to be deemed cumulative unless otherwise provided), as at the relevant Valuation Date (or at such other date specified below):

Receivables arising from Mortgage Loans:

1. in respect of which the disbursed amount at the date of the disbursement is equal or greater than 1 per cent. of the value of the Real Estate Asset as at the relevant appraisal date (*data di perizia*);

2. which have been granted to natural persons (*persone fisiche*) resident in Italy who, in accordance with the classification criteria adopted by the Bank of Italy pursuant to Circular number 140 of 11 February 1991, as amended on 7 August 1998, fell into the

category 600 ("*famiglie consumatrici*"), 614 ("*artigiani*") and 615 ("*altre famiglie produttrici*") of the SAE Code (Business Activity Code) and whose administrative profile falls under the "ordinary risk" (i.e. *rischio ordinario*) category (loans in relation to which there are no unpaid instalments nor there is any pending litigation);

3. in respect of which the disbursed amount at the date of the disbursement is equal or lower than 100 per cent. of the value of the Real Estate Asset as at the relevant appraisal date (*data di perizia*);

4. in respect of which the disbursement date, without any consideration for the value date (*data valuta*), falls no later than 31 August 2016 (included);

5. in respect of which all the Instalments falling due before the Valuation Date have been paid;

6. in respect of which no partial prepayments of undue Instalments were made;

7. in respect of which the Outstanding Principal is equal or greater than €10,000.00

8. in respect of which the Outstanding Principal is lower than €2,000,000.00 (included);

9. in respect of which the relevant Real Estate Asset falls within the following Italian cadastral categories: A1, A2, A3, A4, A5, A6, A7, A8, A9 or A11;

10. which have been subject to, upon filing of the relevant request, the intermediation of branches of Banca Monte dei Paschi di Siena S.p.A., branches of Banca Agricola Mantovana S.p.A. (acquired by BMPS on 16 September 2008), branches of Banca Antonveneta S.p.A. (acquired by BMPS on 22 December 2008), branches of Banca Toscana S.p.A. (acquired by BMPS on 24 March 2009) and branches of Banca Personale S.p.A. (acquired by BMPS on 16 April 2010);

11. which have been granted to one or more individuals (*persone fisiche o cointestatari*) (with the exclusion of enterprises owned by a single individual (*ditte individuali*) or *società di fatto*);

12. not disbursed through third party funds, i.e. loans disbursed, also in part, through funds of the European Investment Bank (B.E.I.) or of the Social Development Fund of the Council of Europe or of specific national public entities (*Enti pubblici nazionali*, i.e. *Cassa Depositi e Prestiti – Finanziarie Regionali*);

13. which have not been granted to Debtors who have taken part or have applied to take part to "*Combatti la crisi*", or any other similar initiatives promoted by BMPS, or the Convention between ABI and the main consumers' associations ("*Piano Famiglie*") of 18 December 2009 as prorogated on 26 January 2011 and as amended on 19 July 2011;

14. which have not been renegotiated pursuant to Legislative Decree No. 93 of 27 May 2008 (c.d. "*Decreto Tremonti*"), converted into Law number 126 of 24 July 2008 and pursuant to the Convention between the MEF and ABI on 19 June 2008;

15. in respect of which the ratio between the value of the registration of the relevant Mortgage and the disbursed amount, at the date of the disbursement, was comprised between 1.5 (included) and 5 (included);

16. which have not been granted to Debtors involved in the seismic events falling under the applicability of Law Decree number 39 of 28 April 2009, converted into Law number 74 of 24 June 2009;

17. with a floating rate whose spread, together with the relevant predetermined contractual index (*indice*), is lower than 5 per cent.;

18. with a fixed rate equal or lower than 8 per cent.;

19. in respect of which the relevant mortgage value is higher than €10.

Specific Criteria for the transfer of the Receivables included in the Eighth Portfolio

1. in respect of which the disbursed amount at the date of the disbursement is equal or greater than 1 per cent. of the value of the Real Estate Asset as at the relevant appraisal date (*data di perizia*);

2. which have been granted to natural persons (*persone fisiche*) resident in Italy who, in accordance with the classification criteria adopted by the Bank of Italy pursuant to Circular number 140 of 11 February 1991, as amended on 7 August 1998, fell into the category 600 ("*famiglie consumatrici*"), 614 ("*artigiani*") and 615 ("*altre famiglie produttrici*") of the SAE Code (Business Activity Code) and whose administrative profile falls under the "ordinary risk" (i.e. *rischio ordinario*) category (loans in relation to which there are no unpaid instalments nor there is any pending litigation);

3. in respect of which the disbursed amount at the date of the disbursement is equal or lower than 100 per cent. of the value of the Real Estate Asset as at the relevant appraisal date (*data di perizia*);

4. in respect of which the disbursement date, without any consideration for the value date (*data valuta*), falls no later than 31 October 2016 (included);

5. in respect of which all the Instalments falling due before the Valuation Date have been paid;

6. in respect of which no partial prepayments of undue Instalments were made;

7. in respect of which the Outstanding Principal is equal or greater than €5,000.00

8. in respect of which the Outstanding Principal is lower than €5,000,000.00 (included);

9. in respect of which the relevant Real Estate Asset falls within the following Italian cadastral categories: A1, A2, A3, A4, A5, A6, A7, A8, A9 or A11;

10. which have been subject to, upon filing of the relevant request, the intermediation of branches of Banca Monte dei Paschi di Siena S.p.A., branches of Banca Agricola Mantovana S.p.A. (acquired by BMPS on 16 September 2008), branches of Banca Antonveneta S.p.A. (acquired by BMPS on 22 December 2008), branches of Banca Toscana S.p.A. (acquired by BMPS on 24 March 2009) and branches of Banca Personale S.p.A. (acquired by BMPS on 16 April 2010);

11. which have been granted to one or more individuals (*persone fisiche o cointestatari*) (with the exclusion of enterprises owned by a single individual (*ditte individuali*) or *società di fatto*);

12. not disbursed through third party funds, i.e. loans disbursed, also in part, through funds of the European Investment Bank (B.E.I.) or of the Social Development Fund of the Council of Europe or of specific national public entities (*Enti pubblici nazionali*, i.e. *Cassa Depositi e Prestiti – Finanziarie Regionali*);

13. which have not been granted to Debtors who have taken part or have applied to take part to "*Combatti la crisi*", or any other similar initiatives promoted by BMPS, or the Convention between ABI and the main consumers' associations ("*Piano Famiglie*") of 18 December 2009 as prorogated on 26 January 2011 and as amended on 19 July 2011;

14. which have not been renegotiated pursuant to Legislative Decree No. 93 of 27 May 2008 (c.d. "*Decreto Tremonti*"), converted into Law number 126 of 24 July 2008 and pursuant to the Convention between the MEF and ABI on 19 June 2008;

15. in respect of which the ratio between the value of the registration of the relevant Mortgage and the disbursed amount, at the date of the disbursement, was comprised between 1.5 (included) and 5 (included);

16. which have not been granted to Debtors involved in the seismic events falling under the applicability of Law Decree number 39 of 28 April 2009, converted into Law number 74 of 24 June 2009;

17. with a floating rate whose spread, together with the relevant predetermined contractual index (*indice*), is lower than 5 per cent.;

18. with a fixed rate equal or lower than 8 per cent.;

19. in respect of which the relevant mortgage value is higher than €10.

Specific Criteria for the transfer of the Receivables included in the Ninth Portfolio

1. in respect of which the disbursed amount at the date of the disbursement is equal or greater than 1 per cent. of the value of the Real Estate Asset as at the relevant appraisal date (*data di perizia*);

2. which have been granted to natural persons (*persone fisiche*) resident in Italy who, in accordance with the classification criteria adopted by the Bank of Italy pursuant to Circular number 140 of 11 February 1991, as amended on 7 August 1998, fell into the category 600 ("*famiglie consumatrici*"), 614 ("*artigiani*") and 615 ("*altre famiglie produttrici*") of the SAE Code (Business Activity Code) and whose administrative profile falls under the "ordinary risk" (i.e. *rischio ordinario*) category (loans in relation to which there are no unpaid instalments nor there is any pending litigation);

3. in respect of which the disbursed amount at the date of the disbursement is equal or lower than 100 per cent. of the value of the Real Estate Asset as at the relevant appraisal date (*data di perizia*);

4. in respect of which the disbursement date, without any consideration for the value date (*data valuta*), falls no later than 31 December 2017 (included);

5. in respect of which all the Instalments falling due before the Valuation Date have been paid;

6. in respect of which no partial prepayments of undue Instalments were made;

7. in respect of which the Outstanding Principal is equal or greater than €5,000.00;

8. in respect of which the Outstanding Principal is lower than €5,000,000.00 (included);

9. in respect of which the relevant Real Estate Asset falls within the following Italian cadastral categories: A1, A2, A3, A4, A5, A6, A7, A8, A9 or A11;

10. which have been subject to, upon filing of the relevant request, the intermediation of branches of Banca Monte dei Paschi di Siena S.p.A., branches of Banca Agricola Mantovana S.p.A. (acquired by BMPS on 16 September 2008), branches of Banca Antonveneta S.p.A. (acquired by BMPS on 22 December 2008), branches of Banca Toscana S.p.A. (acquired by BMPS on 24 March 2009) and branches of Banca Personale S.p.A. (acquired by BMPS on 16 April 2010);

11. which have been granted to one or more individuals (*persone fisiche o cointestatari*) (with the exclusion of enterprises owned by a single individual (*ditte individuali*) or *società di fatto*);

12. not disbursed through third party funds, i.e. loans disbursed, also in part, through funds of the European Investment Bank (B.E.I.) or of the Social Development Fund of the Council of Europe or of specific national public entities (Enti pubblici nazionali, i.e. Cassa Depositi e Prestiti – Finanziarie Regionali);

13. which have not been granted to Debtors who have taken part or have applied to take part to "*Combatti la crisi*", or any other similar initiatives promoted by BMPS, or the Convention between ABI and the main consumers' associations ("*Piano Famiglie*") of 18 December 2009 as extended from time to time;

14. which have not been renegotiated pursuant to Legislative Decree No. 93 of 27 May 2008 (c.d. "*Decreto Tremonti*"), converted into Law number 126 of 24 July 2008 and pursuant to the Convention between the MEF and ABI on 19 June 2008;

15. in respect of which the ratio between the value of the registration of the relevant Mortgage and the disbursed amount, at the date of the disbursement, was comprised between 1.5 (included) and 5 (included);

16. which have not been granted to Debtors involved in the seismic events falling under the applicability of Law Decree number 39 of 28 April 2009, converted into Law number 74 of 24 June 2009, Law Decree number 74 of 6 June 2012 09, converted into Law number 122 of 1 August 2012, Law Decree number 18 of October 2016, as further extended;

17. with a floating rate whose spread, together with the relevant predetermined contractual index (*indice*), is lower than 5 per cent.;

18. with a fixed rate equal or lower than 8 per cent.;

19. in respect of which the relevant mortgage value is higher than €10.

Further Criteria

In accordance with the provisions of the Master Assets Purchase Agreement, the Seller and the Guarantor shall, to the extent necessary, identify further criteria in order to supplement the Common Criteria and the Specific Criteria (the "**Further Criteria**").

Under the Warranty and Indemnity Agreement, the Principal Seller, if any) has represented, *inter alia*, that, as of the date of execution of the Warranty and Indemnity Agreement, the Mortgage Loans comprised in the Portfolios (i) are valid, in existence and in compliance with the Criteria, and (ii) relate to Mortgage Loan Agreements which have been entered into, executed and performed by the Seller in compliance with all applicable laws, rules and regulations (including the Usury Law).

THE ASSET MONITOR

The Bank of Italy Regulations require that the Issuer appoints a qualified entity to be the asset monitor to carry out controls on the regularity of the transaction and the integrity of the Guarantee.

Pursuant to the Bank of Italy Regulations, the asset monitor must be an independent auditor, enrolled with the special register of accounting firms held by the MEF and shall be independent from the Issuer and any other party to the Programme and from the accounting firm who carries out the audit of the Issuer.

Based upon controls carried out, the asset monitor shall prepare annual reports, to be addressed also to the Statutory Auditors of the Issuer.

ASSET MONITOR ENGAGEMENT LETTER

Pursuant to an engagement letter (the "**Asset Monitor Engagement Letter**") entered into on 18 June 2010, the Issuer has appointed Deloitte & Touche S.p.A., a company incorporated under the laws of Italy, enrolled with the Companies' Register of Milan under number 03049560166 and with the special register of accounting firms held by the MEF, having its registered office at via Tortona 25, 20144 Milan, Italy, as initial asset monitor (the "**Asset Monitor**") in order to perform, subject to receipt of the relevant information from the Issuer, specific agreed upon procedures concerning, *inter alia*, the control of (i) the fulfilment of the eligibility criteria set out under Decree No. 310 with respect to the Eligible Assets and Top-Up Assets included in the Cover Pool; (ii) the calculation performed by the Issuer in respect of the Mandatory Tests; (iii) the compliance with the limits to the transfer of the Eligible Assets set out under Decree No. 310; and (iv) the effectiveness and adequacy of the risk protection provided by any Swap Agreement entered into in the context of the Programme.

Under the Asset Monitor Engagement Letter, the Asset Monitor shall, on an annual basis, deliver to the Issuer an annual report detailing the procedures performed under the Asset Monitor Engagement Letter.

The Asset Monitor Engagement Letter provides for certain matters such as the payment of fees and expenses to the Asset Monitor, the resignation of the Asset Monitor and the replacement by the Guarantor of the Asset Monitor.

Governing law

The Asset Monitor Agreement is governed by Italian law.

ASSET MONITOR AGREEMENT

The Asset Monitor, will, pursuant to an asset monitor agreement entered into on 18 June 2010 (the "**Asset Monitor Agreement**") between the Issuer, the Guarantor, the Asset Monitor and the Representative of the Bondholders and subject to due receipt of the information to be provided by the Pre-Issuer Default Test Calculation Agent or the Post-Issuer Default Test Calculation Agent to the Asset Monitor, respectively, prior to the delivery of a Guarantee Enforcement Notice and after the delivery of a Guarantee Enforcement Notice, verify the arithmetic accuracy of the calculations performed by the Pre-Issuer Default Test Calculation Agent with respect to the Mandatory Tests and the Asset Coverage Test and the Post-Issuer

Default Test Calculation Agent with respect to the Amortisation Test pursuant to the Cover Pool Management Agreement with respect to the Amortisation Test.

In addition, on or prior to each Asset Monitor Report Date, the Asset Monitor shall deliver to the Guarantor, the Post-Issuer Default Test Calculation Agent, the Representative of the Bondholders and the Issuer a report in the form set out in the Asset Monitor Agreement.

The Asset Monitor Agreement provides for certain matters such as the payment of fees and expenses to the Asset Monitor, the limited recourse nature of the payment obligation of the Guarantor *vis-à-vis* the Asset Monitor, the resignation of the Asset Monitor and the replacement by the Guarantor of the Asset Monitor.

Governing law

The Asset Monitor Agreement and any non-contractual obligations arising out of or in connection with it are governed by Italian law.

DESCRIPTION OF CERTAIN RELEVANT LEGISLATION IN ITALY

Introduction

The legal and regulatory framework with respect to the issue of covered bonds in Italy comprises the following:

- Article 7-*bis* and article 7-*ter* of the Law No. 130 of 30 April 1999 (as amended, the "**Italian Law 130**");
- the regulations issued by the Italian Ministry for the Economy and Finance on 14 December 2006 under Decree No. 310 (the "**Decree No. 310**");
- the C.I.C.R. Decree dated 12 April 2007; and
- Part III, Chapter 3 of the "*Disposizioni di Vigilanza per le Banche*" (Circular No. 285 of 17 December 2013), as amended and supplemented from time to (the "**Bank of Italy Instructions**").

Law Decree No. 35 of 14 March 2005, converted by Law No. 80 of 14 May 2005, amended the Italian Law 130 by adding two new articles, articles 7-*bis* and 7-*ter*, which enable banks to issue covered bonds. Articles 7-*bis* and 7-*ter*, however, required both the Italian Ministry of Economy and Finance and the Bank of Italy to issue specific regulations before the relevant structures could be implemented.

Italian Law 130 was further amended by law decree No. 145 of 23 December 2013, called "*Decreto Destinazione Italia*" (the "***Destinazione Italia* Decree**") converted into law No. 9 of 21 February 2014, and by law decree No. 91, called "*Decreto Competitività*" (the "**Law Decree *Competitività***", converted into law No. 116 of 11 August 2014).

Following the issue of the Decree No. 310, the Bank of Italy Instructions were published on 17 May 2007, as subsequently amended on 24 March 2010, completing the relevant legal and regulatory framework and allowing for the implementation on the Italian market of this funding instrument, which had previously only been available under special legislation to specific companies (such as *Cassa Depositi e Prestiti S.p.A.*).

The Bank of Italy published new supervisory regulations on banks in December 2013 (Circular of the Bank of Italy No. 285 of 17 December 2013) which came into force on 1 January 2014, implementing CRD IV and setting out additional local prudential rules concerning matters not harmonised on EU level. Following the publication on 24 June 2014 of the 5th update to Circular of the Bank of Italy No. 285 of 17 December 2013, which added a new Chapter 3 ("*Obbligazioni bancarie garantite*") in Part III contained therein, the provisions set forth under Title V, Chapter 3 of Circular No. 263 of 27 December 2006 have been abrogated.

The Bank of Italy Instructions introduced provisions, *inter alia*, regulating:

- the capital adequacy requirements that issuing banks must satisfy in order to issue covered bonds and the ability of issuing banks to manage risks;
- limitations on the total value of eligible assets that banks, individually or as part of a group, may transfer as cover pools in the context of covered bond transactions;

- criteria to be adopted in the integration of the assets constituting the cover pools;
- the identification of the cases in which the integration is permitted and its limits; and
- monitoring and surveillance requirements applicable with respect to covered bond transactions and the provision of information relating to the transaction.

On 8 May 2015, the Ministerial Decree No. 53/2015 (the "**Decree 53/2015**") issued by the MEF has been published in the Official Gazette of the Republic of Italy. The Decree 53/2015 came into force on 23 May 2015, repealing the Ministerial Decree No. 29/2009. Pursuant to article 7 of the Decree 53/2015, the assignee companies which guarantee covered bonds, belonging to a banking group as defined by article 60 of the Consolidated Banking Act (such as MPS Covered Bond S.r.l.), will no longer have to be registered in the general register held by the Bank of Italy pursuant to article 106 of the Consolidated Banking Act.

Basic structure of a covered bond issue

The structure provided under article 7-*bis* with respect to the issue of covered bonds may be summarised as follows:

- a bank transfers a pool of eligible assets (i.e. the cover pool) to an article 7-*bis* special purpose vehicle (the "**Guarantor**");
- the bank (or a different bank) grants the Guarantor a subordinated loan in order to fund the payment by the Guarantor of the purchase price due for the cover pool;
- the bank (or a different bank) issues the covered bonds which are supported by a first demand, unconditional and irrevocable guarantee issued by the Guarantor for the exclusive benefit of the holders of the covered bonds and the hedging counterparties involved in the transaction. The Guarantee is backed by the entire cover pool held by the Guarantor.

Article 7-*bis* however also allows for structures which contemplate different entities acting respectively as cover pool provider, subordinated loan provider and covered bonds issuer.

The Guarantor

The Italian legislator chose to implement the new legislation on covered bonds by supplementing the Italian Law 130, thus basing the new structure on a well established platform and applying to covered bonds many provisions with which the market is already familiar in relation to Italian securitisations. Accordingly, as is the case with the special purpose entities which act as issuers in Italian securitisation transactions, the Guarantor is required to be established with an exclusive corporate object that, in the case of covered bonds, must be the purchase of assets eligible for cover pools and the person giving guarantees in the context of covered bond transactions.

The guarantee

The Decree No. 310 provides that the guarantee issued by the Guarantor for the benefit of the bondholders must be irrevocable, first-demand, unconditional and independent from the obligations of the issuer of the covered bonds. Furthermore, upon the occurrence of a default

by the issuer in respect of its payment obligations under the covered bonds, the Guarantor must provide for the payment of the amounts due under the covered bonds, in accordance with their original terms and with limited recourse to the amounts available to the Guarantor from the cover pool. The acceleration of the issuer's payment obligations under the covered bonds will not therefore result in a corresponding acceleration of the Guarantor's payment obligations under the guarantee (thereby preserving the maturity profile of the covered bonds).

Upon an insolvency of the issuer, solely the Guarantor will be responsible for the payment obligations of the issuer owed to the Bondholders, in accordance with their original terms and with limited recourse to the amounts available to the Guarantor from the cover pool.

If a resolution pursuant to Article 74 of the Consolidated Banking Act is passed in respect of the Issuer, the Guarantor, in accordance with Decree No. 310, shall be responsible for the payments of the amounts due and payable under the Covered Bonds within the entire period in which the suspension continues at their relevant due date, **provided that** it shall be entitled to claim any such amounts from the Issuer. For further details see section "*Description of the Transaction Documents - Guarantee*".

Finally, if a moratorium is imposed on the issuer's payments, the Guarantor will fulfil the issuer's payment obligations, with respect to amounts which are due and payable and with limited recourse to the cover pool. The Guarantor will then have recourse against the issuer for any such payments.

Segregation and subordination

Article 7-*bis* provides that the assets comprised in the cover pool and the amounts paid by the debtors with respect to the receivables and/or debt securities included in the cover pool are exclusively designated and segregated by law for the benefit of the holders of the covered bonds and the hedging counterparties involved in the transaction.

In addition, article 7-*bis* expressly provides that the claim for reimbursement of the loan granted to the Guarantor to fund the purchase of assets in the cover pool is subordinated to the rights of the Bondholders and of the hedging counterparties involved in the transaction.

Exemption from claw-back

Article 7-*bis* provides that the guarantee and the subordinated loan granted to fund the payment by the Guarantor of the purchase price due for the cover pool are exempt from the bankruptcy claw-back provisions set out in article 67 of the Italian Bankruptcy Law (Royal Decree No. 267 of 16 March 1942).

In addition to the above, any payments made by an assigned debtor to the Guarantor may not be subject to any declaration of ineffectiveness according to article 65 of the Bankruptcy Law.

The Issuing Bank

The Bank of Italy Instructions provide that covered bonds may only be issued by banks which individually satisfy, or which belong to banking groups which, on a consolidated basis:

- have own funds (*fondi propri*) of at least €250,000,000; and
- have a minimum total capital ratio of 9 per cent..

The Bank of Italy Instructions specify that the requirements above also apply to the bank acting as cover pool provider (in the case of structures in which separate entities act respectively as issuing bank and as cover pool provider).

	Ratios	**Transfer Limitations**
"A" range	- Tier 1 ratio ≥ 9%; and - Common Equity Tier 1 ratio ≥ 8%	No limitation
"B" range	- Tier 1 ratio ≥ 8%; and - Common Equity Tier 1 ratio ≥ 7%	Up to 60% of eligible assets may be transferred
"C" range	- Tier 1 ratio ≥ 7%; and - Common Equity Tier 1 ratio ≥ 6%	Up to 25% of eligible assets may be transferred

The Bank of Italy Instructions clarify that the ratios provided with respect to each range above must be satisfied jointly: if a bank does not satisfy both ratios with respect to a specific range, the range applicable to it will be the following, more restrictive, range. Accordingly, if a bank (or the relevant banking group) satisfies the "**b**" range total capital ratio but falls within the "**c**" range with respect to its tier 1 ratio, the relevant bank will be subject to the transfer limitations applicable to the "**c**" range.

The Cover Pool

For a description of the assets which are considered eligible for inclusion in a cover pool under article 7-*bis*, see "*Description of the Cover Pool - Eligibility Criteria*".

Ratio between cover pool value and covered bond outstanding amount

The Decree No. 310 provides that the cover pool provider and the issuer must continually ensure that, throughout the transaction:

- the aggregate nominal value of the cover pool is at least equal to the nominal amount of the relevant outstanding covered bonds;
- the net present value of the cover pool (net of all the transaction costs borne by the Guarantor, including in relation to hedging arrangements) is at least equal to the net present value of the relevant outstanding covered bonds;
- the interest and other revenues deriving from the cover pool (net of all the transaction costs borne by the Guarantor) are sufficient to cover interest and costs due by the issuer with respect to the relevant outstanding covered bonds, taking into account any hedging agreements entered into in connection with the transaction.

In respect of the above, under the Bank of Italy Instructions, strict monitoring procedures are imposed on banks for the monitoring of the transaction and of the adequacy of the guarantee on the cover pool. Such activities must be carried out both by the relevant bank and by an asset monitor, to be appointed by the bank, which is an independent accounting firm. The asset monitor must prepare and deliver to the issuing bank's s board of auditors, on an annual basis, a report detailing its monitoring activity and the relevant findings.

The Bank of Italy Instructions require banks to carry out the monitoring activities described above at least every 6 months with respect to each covered bond transaction. Furthermore, the internal auditors of banks must comprehensively review every 12 months the monitoring activity carried out with respect to each covered bond transaction, basing such review, *inter alia*, on the evaluations supplied by the asset monitor.

In addition to the above, pursuant to the Bank of Italy Instructions provide that the management body of the issuing bank must ensure that the internal structures delegated to the risk management verify at least every six months and for each transaction completeness, accuracy and timeliness of information available to investors pursuant to art. 129, paragraph 7, of Regulation (EU) No. 575/2013 of the European Parliament and of the Council of the European Union of 26 June 2013 (CRR).

In order to ensure that the monitoring activities above may be appropriately implemented, the Bank of Italy Instructions require that the entities participating in covered bond transactions be bound by appropriate contractual undertakings to communicate to the issuing bank, the cover pool provider and the entity acting as servicer in relation to the cover pool assets all the necessary information with respect to the cover pool assets and their performance.

Substitution of assets

The Decree No. 310 and the Bank of Italy Instructions provide that, following the initial transfer to the cover pool, the eligible assets comprised in the cover pool may only be substituted or supplemented in order to ensure that the requirements described under "*Ratio between cover pool value and covered bond outstanding amount*", or the higher over-collateralisation provided for under the relevant covered bond transaction documents, are satisfied at all times during the transaction.

- The eligible assets comprised in the cover pool may only be substituted or supplemented by means of:
- the transfer of further assets (eligible to be included in the cover pool in accordance with the criteria described above);
- the establishment of deposits held with banks ("**Qualified Banks**") which have their registered office in a member state of the European Economic Area or in Switzerland or in a state for which a 0 per cent. risk weight is applicable in accordance with the prudential regulations' standardised approach; and
- the transfer of debt securities, having a residual life of less than one year, issued by the Qualified Banks.

The Bank of Italy has clarified that the eligible assets included in the cover pool may be substituted with other eligible assets originated by the Seller, **provided that** such substitution is expressly provided for and regulated under the relevant programme documentation and appropriate disclosure is given to the investors in the prospectus.

The Decree No. 310 and the Bank of Italy Instructions, however, provide that the assets described in the last two paragraphs above, (together with the liquidity deriving from the management of the cash-flows of the cover pool), cannot exceed 15 per cent. of the aggregate nominal value of the cover pool. This 15 per cent. limitation must be satisfied throughout the

transaction and, accordingly, the substitution of cover pool assets may also be carried out in order to ensure that the composition of the assets comprised in the cover pool continues to comply with the relevant threshold. However the Bank of Italy has clarified that such 15 per cent. limitation may be exceeded upon occurrence of an Insolvency Event in respect of the Issuer, whereby supplementing the cover pool is no longer possible and the accumulation of liquidity over the 15 per cent. limit may be conducive to the benefit of the Bondholders.

The Bank of Italy Instructions clarify that the limitations to the overall amount of eligible assets that may be transferred to cover pools described under "*The Issuing Bank*" above do not apply to the subsequent transfer of supplemental assets for the purposes described under this paragraph.

Taxation

Article 7-*bis*, sub-paragraph 7, provides that any tax is due as if the granting of the subordinated loan and the transfer of the cover pool had not taken place and as if the assets constituting the cover pool were registered as on-balance sheet assets of the cover pool provider, **provided that**:

- the purchase price paid for the transfer of the cover pool is equal to the most recent book value of the assets constituting the cover pool; and
- the subordinated loan is granted by the same bank acting as cover pool provider.

It is likely that the provision described above would imply, as a main consequence, that banks issuing covered bonds will be entitled to include the receivables transferred to the cover pool as on-balance receivables for the purpose of tax deductions applicable to reserves for the depreciation on receivables in accordance with article 106 of Presidential Decree No. 917 of 22 December 1986.

TAXATION

The statements herein regarding taxation are based on the laws in force as at the date of this Prospectus and are subject to any changes in law occurring after such date, which changes could be made on a retroactive basis. The following summary 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 Covered Bonds 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 Covered Bonds are advised to consult their own tax advisers concerning the overall tax consequences of their ownership of the Covered Bonds.

Republic of Italy

Tax treatment of Covered Bonds issued by the Issuer

The Decree No. 239 sets out the applicable regime regarding the tax treatment of interest, premium and other income from certain securities issued, *inter alia*, by Italian resident banks (including the difference between the redemption amount and the issue price) (hereinafter collectively referred to as "**Interest**"). The provisions of Decree No. 239 only apply to Covered Bonds issued by the Issuer which qualify as *obbligazioni* (bonds) or *titoli similari alle obbligazioni* (securities similar to bonds) pursuant to article 44 of Presidential Decree No. 917 of 22 December 1986, as amended and supplemented ("**Decree No. 917**").

For these purposes, securities similar to bonds (*titoli similari alle obbligazioni*) are securities that incorporate an unconditional obligation of the issuer to pay at maturity an amount not lower than their nominal value, with or without the payment of periodic interest, and do not give any right to directly or indirectly participate in the management of the issuer or to the business in connection to which the securities were issued, nor to control the same.

Italian resident Bondholders

Pursuant to Decree No. 239, where an Italian resident Bondholders, who is the beneficial owner of the Covered Bonds, is:

(a) an individual not engaged in an entrepreneurial activity to which the Covered Bonds are connected (unless the investor has entrusted the management of his financial assets, including the Covered Bonds, to an authorised intermediary and has opted for the so called "*regime del risparmio gestito"* (the "**Asset Management Regime**") according to article 7 of Italian Legislative Decree No. 461 of 21 November 1997, as amended ("**Decree No. 461**")) – see under "*Capital gains tax*" below for an analysis of such regime); or

(b) a partnership (other than a *società in nome collettivo* or *società in accomandita semplice* or similar partnership) or a *de facto* partnership not carrying out commercial activities or professional associations; or

(c) a private or public institution other than companies, trusts not carrying out mainly or exclusively commercial activities, the Italian State and public and territorial entities, with the exclusion of collective investments funds; or

(d) an investor exempt from Italian corporate income taxation,

Interest payments relating to the Covered Bonds, accrued during the relevant holding period, are subject to a tax, referred to as "*imposta sostitutiva*", levied at the rate of 26 per cent., either when Interest is paid or when payment thereof is obtained by the holder on a sale of the Covered Bonds. In the event that the Bondholders described under (a) and (c) above are engaged in an entrepreneurial activity to which the Covered Bonds are connected, the *imposta sostitutiva* applies as a provisional tax. Interest will be included in the relevant beneficial owner's Italian income tax return and will be subject to Italian ordinary income taxation and the *imposta sostitutiva* may be recovered as a deduction from Italian income tax due.

Subject to certain limitations and requirements (including a minimum holding period), Interest in respect of Covered Bonds received by Italian resident individuals holding the Covered Bonds not in connection with an entrepreneurial activity may be exempt from taxation, including the 26 per cent. *imposta sostitutiva*, if the Covered Bonds are included in a long-term individual savings account (*piano individuale di risparmio a lungo termine*) that meets the requirements set forth in article 1, paragraphs 100 – 114, of Law No. 232 of 11 December 2016 ("**Law No. 232**") and in Article 1, paragraphs 211 – 215, of Law No. 145 of 30 December 2018 ("**Law No. 145**").

Where an Italian resident Bondholder is a company or similar commercial entity (including limited partnership qualified as *società in nome collettivo* or *società in accomandita semplice* and private and public institutions carrying out commercial activities and holding the Covered Bonds in connection with this kind of activities), or a permanent establishment in Italy of a foreign company to which the Covered Bonds are effectively connected, and the Covered Bonds are deposited with an authorised intermediary, Interest from the Covered Bonds will not be subject to *imposta sostitutiva*. They must, however, be included in the relevant Bondholder's income tax return and are therefore subject to Italian corporate income taxation (and, in certain circumstances, depending on the "*status*" of the Bondholder, also to IRAP (the regional tax on productive activities). Interest on the Covered Bonds that are not deposited with an authorised intermediary, received by the above persons is subject to a 26 per cent. *imposta sostitutiva* levied as provisional tax.

Where a Bondholder is an Italian resident real estate investment fund or a real estate SICAF, to which the provisions of Law Decree No. 351 of 25 September 2001, as subsequently amended, apply, Interest accrued on the Covered Bonds will be subject neither to *imposta sostitutiva* nor to any other income tax in the hands of the real estate investment fund or the SICAF. The income of the real estate fund or the real estate SICAF is subject to tax, in the hands of the unitholder, depending on the *status* and percentage of participation, or, when earned by the fund, through distribution and/or upon redemption or disposal of the units.

If the investor is resident in Italy and is an open-ended or closed-ended investment fund (the "**Fund**"), a SICAV or a SICAF and either (i) the Fund, the SICAV or the SICAF or (ii) their manager is subject to the supervision of a regulatory authority and the relevant Covered Bonds are held by an authorised intermediary, Interest accrued during the holding period on the Covered Bonds will not be subject to *imposta sostitutiva*. They must, however, be included in the management results of the Fund, the SICAV or the SICAF, accrued at the end of each tax period. The Fund, the SICAV or the SICAF will not be subject to taxation on such result, 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 Substitute Tax**").

Where an Italian resident Bondholder is a pension fund (subject to the regime provided for by article 17 of the Legislative Decree No. 252 of 5 December 2005 ("**Decree No. 252**")) and the

Covered Bonds are deposited with an authorised intermediary, Interest relating to the Covered Bonds 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 (the "**Pension Fund Tax**") on the increase in value of the managed assets accrued at the end of each tax year (which increase would include Interest accrued on the Covered Bonds).

Subject to certain conditions (including minimum holding period) and limitations, Interest relating to the Covered Bonds may be excluded from the taxable base of the Pension Fund Tax if the Covered Bonds are included in a long-term savings account (*piano di risparmio a lungo termine*) that meets the requirements set forth in article 1, paragraphs 100 – 114, of Law No. 232 and in Article 1, paragraphs 211 – 215, of Law No. 145.

Pursuant to Decree No. 239, *imposta sostitutiva* is applied by banks, *società di intermediazione mobiliare* ("**SIMs**"), fiduciary companies, *società di gestione del risparmio* ("**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 Covered Bonds. For the purpose of the application of the *imposta sostitutiva*, a transfer of Covered Bonds includes any assignment or other act, either with or without consideration, which results in a change of the ownership of the relevant Covered Bonds or in a change of the Intermediary with which the Covered Bonds are deposited.

Where the Covered Bonds are not deposited with an authorised Italian Intermediary (or with a permanent establishment in Italy of a foreign Intermediary), the *imposta sostitutiva* is applied and withheld by any Italian Intermediary paying Interest to the Bondholders or, absent that by the Issuer.

Non-Italian resident Bondholders

Where the Bondholder is a non-Italian resident beneficial owner of the Covered Bonds with no permanent establishment in Italy to which the Covered Bonds are effectively connected, payment of Interest in respect of the Covered Bonds will not be subject to *imposta sostitutiva* **provided that** the non-Italian resident beneficial owner is:

(a) resident, for tax purposes in a State or territory included in the list of States or territories allowing an adequate exchange of information with Italy and listed in the Italian Ministerial Decree dated 4 September 1996 as amended and supplemented from time to time (the "**White List**"). According to article 11, par. 4, let. c), of Decree No. 239, the White List will be updated every six months period; 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", whether or not subject to tax, which is established in a country included in the White List.

In order to ensure payment of Interest in respect of the Covered Bonds without the application of 26 per cent. *imposta sostitutiva*, non Italian resident Bondholders indicated above must be the beneficial owners of the payments of Interest and must:

(a) deposit in due time, directly or indirectly, the Covered Bonds 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 Covered Bonds, a self-statement, which remains valid until withdrawn or revoked, in which the Bondholder declares to be eligible to benefit from the applicable exemption from *imposta sostitutiva*. This statement, which is not requested for international bodies or entities established in accordance with international agreements ratified in Italy nor in the 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.

Failure of a non-resident Bondholder to comply in due time with the procedures set forth in Decree No. 239 and in the relevant implementation rules will result in the application of *imposta sostitutiva* on Interest payments.

Non-resident Bondholders who are subject to *imposta sostitutiva* might, nevertheless, be eligible for a total or partial relief under an applicable tax treaty between the Republic of Italy and the country of residence of the relevant Bondholder.

Payments made by an Italian resident guarantor

There is no authority directly on point regarding the Italian tax regime of payments made by an Italian resident guarantor under the Guarantee. Accordingly, there can be no assurance that the Italian tax authorities will not assert an alternative treatment of such payments than that set forth herein or that the Italian court would not sustain such an alternative treatment.

With respect to payments on the Covered Bonds made to certain Italian resident Bondholders by an Italian resident guarantor, in accordance with one interpretation of Italian tax law, any payment of liabilities equal to interest and other proceeds from the Covered Bonds may be treated, in certain circumstances, as a payment by the relevant Issuer and will thus be subject to the tax regime described in the previous paragraphs of this section.

In accordance with another interpretation, any such payment made by the Italian resident guarantor may be subject to a withholding tax at a rate of 26 per cent. levied as a final tax or provisional tax depending on the "*status*" of the Bondholder, pursuant to Presidential Decree No. 600 of 29 September 1973, as subsequently amended. In case of payments to non-Italian resident Bondholders, a final withholding tax may be applied at 26 per cent. Double taxation treaties entered into by the Republic Italy may apply allowing for a lower (or, in certain cases, nil) rate of withholding tax.

Fungible issues

Pursuant to article 11, paragraph 2 of Decree No. 239, where the relevant Issuer issues a new Tranche forming part of a single series with a previous Tranche, for the purposes of calculating the amount of Interest subject to *imposta sostitutiva*, the issue price of the new Tranche will be deemed to be the same as the issue price of the original Tranche. This rule applies where (a) the new Tranche is issued within 12 months from the issue date of the previous Tranche and (b) the difference between the issue price of the new Tranche and that of the original Tranche does not exceed 1 per cent. of the nominal value of the Covered Bonds multiplied by the number of years of the duration of the Covered Bonds.

Atypical securities

Interest payments relating to Covered Bonds that are not deemed to fall within the category of bonds (*obbligazioni*) or securities 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, securities similar to bonds are securities that incorporate an unconditional obligation to pay, at maturity, an amount not lower than their nominal value.

In the case of Covered Bonds issued by an Italian resident issuer, where the Bondholder is:

(a) an Italian individual engaged in an entrepreneurial activity to which the Covered Bonds are connected;

(b) an Italian company or a similar Italian commercial entity;

(c) a permanent establishment in Italy of a foreign entity to which the Covered Bonds are connected;

(d) an Italian commercial partnership; or

(e) an Italian commercial private or public institution,

such withholding tax is a provisional withholding tax.

Subject to certain limitations and requirements (including a minimum holding period), Italian resident individuals not acting in connection with an entrepreneurial activity may be exempt from any income taxation, including the withholding tax on interest, premium and other income relating to Covered Bonds qualifying as "*titoli atipici*", if those Covered Bonds are included in a long-term individual savings account (*piano individuale di risparmio a lungo termine*) that meets the requirements set forth in article 1, paragraphs 100-114, of Law No. 232 and in Article 1, paragraphs 211 – 215, of Law No. 145.

In all other cases, including when the Bondholder is a non-Italian resident, the withholding tax is a final withholding tax. For non-Italian resident Bondholders, the 26 per cent. withholding tax rate may be reduced by any applicable tax treaty.

Capital gains tax

Italian resident Bondholders

Any gain obtained from the sale or redemption of the Covered Bonds would be treated as part of the taxable income (and, in certain circumstances, depending on the "*status*" of the Bondholder, also as part of the net value of the production for IRAP purposes) if realised by an Italian company, a similar commercial entity (including the Italian permanent establishment of foreign entities to which the Covered Bonds are connected) or Italian resident individuals engaged in an entrepreneurial activity to which the Covered Bonds are connected.

Where a Bondholder is (i) an Italian resident individual not engaged in an entrepreneurial activity to which the Covered Bonds are connected, (ii) an Italian resident partnership not carrying out commercial activities, or (iii) an Italian private or public institution not carrying out mainly or exclusively commercial activities, any capital gain realised by such Bondholder from the sale or redemption of the Covered Bonds would be subject to an *imposta sostitutiva*, levied at the rate of 26 per cent.

In respect of the application of *imposta sostitutiva* on capital gains, taxpayers may opt for one of the three regimes described below:

(a) 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 Covered Bonds 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 Bondholders any given fiscal year. In this instance, "capital gains" means any capital gain not connected with an entrepreneurial activity pursuant to all sales or redemptions of the Covered Bonds carried out during any given tax year. Italian resident individuals holding the Covered Bonds 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 the *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 ("**Decree No. 66**"), capital losses realized from 1 January 2012 to 30 June 2014 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 same capital losses.

(b) As an alternative to the tax declaration regime, holders of the Covered Bonds who are:

    (i) Italian resident individuals holding the Covered Bonds not in connection with an entrepreneurial activity;

    (ii) Italian resident partnerships not carrying out commercial activities; and

    (iii) Italian private or public institutions not carrying out mainly or exclusively commercial activities,

    may elect for the administrative savings regime ("*regime del risparmio amministrato*") to pay the *imposta sostitutiva* separately on capital gains realised on each sale, transfer

or redemption of the Covered Bonds. Such separate taxation of capital gains is allowed subject to (i) the Covered Bonds being deposited with Italian banks, SIMs or certain authorised financial intermediaries and (ii) an express election for the administrative savings regime being timely made in writing by the relevant Bondholder. The depository must account for the *imposta sostitutiva* in respect of capital gains realised on each sale, transfer or redemption of the Covered Bonds (as well as in respect of capital gains realised upon the revocation of its mandate), net of any incurred capital loss. The depository must also pay the relevant amount to the Italian tax authorities on behalf of the holder of the Covered Bonds, deducting a corresponding amount from the proceeds to be credited to the holder of the Covered Bonds or using funds provided by the holder of the Covered Bonds. Under the administrative savings regime, where a sale or transfer or redemption of the Covered Bonds results in a capital loss, the intermediary is entitled to deduct such loss from gains of the same kind subsequently realised on assets held by the holder of the Covered Bonds within the same relationship of deposit in the same tax year or in the following tax years up to the fourth. Pursuant to Decree No. 66, capital losses realized from 1 January 2012 to 30 June 2014 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 same capital losses. Under the administrative savings regime, the realised capital gain is not required to be included in the annual income tax return of the Bondholder and the Bondholder remains anonymous.

(c) Alternatively to the above described regimes, the aforementioned Bondholders may elect for the Asset Management Regime (the "*risparmio gestito*" regime), under which any capital gains realised upon sale, transfer or redemption by Italian resident individuals holding the Covered Bonds not in connection with an entrepreneurial activity who have entrusted the management of their financial assets (including the Covered Bonds) to an authorised intermediary, 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. Any depreciation of the managed assets accrued at the year end may be carried forward against increase in value of the managed assets accrued in any of the four succeeding tax years. Pursuant to Decree No. 66, depreciations of the managed assets registered from 1 January 2012 to 30 June 2014 may be carried forward to be offset against any subsequent increase in value accrued as from 1 July 2014 for an overall amount of 76.92 per cent. of the same depreciations in value. Also under the asset management regime the realised capital gain is not required to be included in the annual income tax return of the Bondholder and the Bondholder remains anonymous.

Subject to certain limitations and requirements (including a minimum holding period), capital gains in respect of Covered Bonds realised upon sale, transfer or redemption by Italian resident individuals holding the Covered Bonds not in connection with an entrepreneurial activity may be exempt from taxation, including the 26 per cent. *imposta sostitutiva*, if the Covered Bonds are included in a long-term individual savings account (*piano individuale di risparmio a lungo termine*) that meets the requirements set forth in article 1, paragraph 100 – 114, of Law No. 232 and in Article 1, paragraphs 211 – 215, of Law No. 145.

Where a Bondholder is an Italian resident real estate investment fund or a real estate SICAF, to which the provisions of Law Decree No. 351 of 25 September 2001, as subsequently amended, apply, capital gains realised will be subject neither to *imposta sostitutiva* nor to any

other income tax in the hands of the real estate investment fund or the real estate SICAF. The income of the real estate fund or the SICAF is subject to tax, in the hands of the unitholder, depending on the *status* and percentage of participation, or, when earned by the fund, through distribution and/or upon redemption or disposal of the units.

Any capital gains realised by a Bondholder who is an Italian Fund, a SICAV or a SICAF will be included in the result of the relevant portfolio accrued at the end of the tax period. The Fund, SICAV or SICAF will not be subject to taxation on such increase, but the Collective Investment Fund Substitute Tax will apply, in certain circumstances, to distributions made in favour of unitholders or shareholders.

Where an Italian resident Bondholder is a pension fund (subject to the regime provided for by article 17 of the Legislative Decree No. 252) and the Covered Bonds are deposited with an Italian resident intermediary, any capital gains realised upon sale, transfer or redemption of the Covered Bonds 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 the Pension Fund Tax on the increase in value of the managed assets accrued at the end of each tax year (which increase would include capital gains accrued on the Covered Bonds).

Subject to certain limitations and requirements (including minimum holding period), capital gains in respect of Covered Bonds realized upon sale, transfer or redemption by Italian pension fund may be excluded from the taxable base of the Pension Fund Tax if the Covered Bonds are included in a long-term savings account (*piano di risparmio a lungo termine*) that meets the requirements set forth in article 1, paragraphs 100 – 114, of Law No. 232 and in Article 1, paragraphs 211 – 215, of Law No. 145.

Non-Italian resident Bondholders

Capital gains realised by non-Italian resident Bondholders without a permanent establishment in Italy to which the Covered Bonds are effectively connected through the sale or redemption of Covered Bonds issued by an Italian resident issuer and traded on regulated markets are not subject to the *imposta sostitutiva*.

Capital gains realised by non-Italian resident Bondholders without a permanent establishment in Italy to which the Covered Bonds are effectively connected through the sale, transfer or redemption of Covered Bonds issued by an Italian resident issuer not traded on regulated markets are not subject to the *imposta sostitutiva*, **provided that** the beneficial owner of the Covered Bonds is:

(a) resident in a State or territory included in the White List as defined above; and

(b) all the requirements and procedures set forth in Decree No. 239 and in the relevant implementation rules, as subsequently amended, in order to benefit from the exemption from *imposta sostitutiva* are met or complied with in due time.

The same exemption applies where the non-Italian resident beneficial owners of the Covered Bonds are (i) international entities or organizations established in accordance with international agreements ratified by Italy; (ii) certain foreign institutional investors, whether or not subject to tax, established in countries which allow for an adequate exchange of information with Italy;

or (iii) Central Banks or entities which manage, *inter alia*, the official reserves of a foreign State.

If none of the conditions above is met, capital gains realised by non-Italian resident holders Bondholders from the sale, transfer or redemption of Covered Bonds issued by an Italian resident issuer and not traded on regulated markets are subject to the *imposta sostitutiva* at the current rate of 26 per cent. However, Bondholders may benefit from an applicable tax treaty with the Republic of Italy providing that capital gains realised upon the sale, tranfer or redemption of the Covered Bonds are to be taxed only in the country of tax residence of the recipient.

Under these circumstances, if non-Italian residents without a permanent establishment in Italy to which the Covered Bonds are effectively connected elect for the asset management regime or are subject to the administrative savings regime, exemption from Italian capital gains tax will apply **provided that** they timely file with the Italian authorised financial intermediary a self declaration attesting that all the requirements for the application of the relevant double taxation treaty are met.

Inheritance and gift taxes

Transfers of any valuable asset (including shares, Covered Bonds or other securities) as a result of death or donation are taxed as follows:

(a) 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 gift exceeding Euro 1,000,000;

(b) 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 gift exceeding Euro 100,000; and

(c) any other transfer is subject to an inheritance and gift tax applied at a rate of 8 per cent. on the entire value of the inheritance or gift.

If the transfer is made in favour of persons with severe disabilities, the tax applies on the value exceeding €1,500,000.

Moreover, an anti-avoidance rule is provided for by Law No. 383 of 18 October 2001 for any gift of assets (such as the Covered Bonds) which, if sold for consideration, would give rise to capital gains to the *imposta sostitutiva* provided for by Decree No. 461. In particular, if the donee sells the Covered Bonds for consideration within 5 years from the receipt thereof as a gift, the donee is required to pay the relevant *imposta sostitutiva* on capital gains as if the gift was not made.

Transfer tax

Contracts relating to the transfer of securities are subject to a Euro 200 registration tax as follows: (i) public deeds and notarised deeds are subject to mandatory registration; (ii) private deeds are subject to registration only in the case of use or voluntary registration.

Stamp Duty

Pursuant to article 13 par. 2-*ter* of the tariff Part I attached to Presidential Decree No. 642 of 26 October 1972, as amended by article 1 par. 581 of Law No. 147 of 27 December 2013, a proportional stamp duty applies on an annual basis to the periodic reporting communications sent by financial intermediaries to their clients in respect of any financial product and instrument, which may be deposited with such financial intermediary in Italy. The stamp duty applies at the rate of 0.20 per cent. and it cannot exceed €14,000 for taxpayers other than individuals. This stamp duty is determined on the market value or – in the absence of a market value – on the nominal value or the redemption amount of any financial product or financial instruments (including the Covered Bonds). Stamp duty applies both to Italian resident Bondholders and to non-Italian resident Bondholders, to the extent that the Covered Bonds are held with an Italian-based financial intermediary.

The statement is considered to be sent at least once a year, even for instruments for which is not mandatory, nor the deposit nor the release or the drafting of the statement. In case of reporting periods of less than 12 months, the stamp duty is payable *pro rata*.

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.

Wealth tax on financial assets deposited abroad

According to article 19 of Decree No. 201/2011, as amended by article 1 par. 582 of Law No. 147 of 27 December 2013, Italian resident individuals holding financial assets – including the Covered Bonds – outside of the Italian territory are required to pay in their own annual tax declaration a wealth tax at the rate of 0.2 per cent. The tax applies on the market value at the end of the relevant year or – in the lack of the market value – on the nominal value or redemption value, or in the case the face or redemption values cannot be determined, on the purchase value of any financial assets held outside of the Italian territory.

United States Foreign Account Tax Compliance Act

Sections 1471 through 1474 of the U.S. Internal Revenue Code of 1986, as amended ("**FATCA**") impose a new reporting regime and potentially a 30 per cent. withholding tax with respect to certain US payments by a "foreign financial institution", or "**FFI**" (as defined by FATCA)) to persons that fail to meet certain certification, reporting or related requirements.

This withholding would not apply to payments on the Covered Bonds prior to 1 January 2019 and would only potentially apply to payments in respect of (i) any Covered Bonds characterized as debt (or which are not otherwise characterized as equity and have a fixed term) for U.S. federal income tax purposes that are issued after the "**grandfathering date**", which is the date that is six months after the date on which final U.S. Treasury regulations defining the term foreign passthru payment are filed with the Federal Register, or which are materially modified after the grandfathering date and (ii) any Covered Bonds characterized as equity or which do not have a fixed term for U.S. federal tax purposes, whenever issued. If Covered Bonds are issued on or before the grandfathering date, and additional Covered Bonds of the same series are issued after that date, the additional Covered Bonds may not be treated as grandfathered,

which may have negative consequences for the existing Covered Bonds, including a negative impact on market price.

The United States and a number of other jurisdictions have entered into intergovernmental agreements to facilitate the implementation of FATCA (each, an "**IGA**"). Pursuant to FATCA and the "Model 1" and "Model 2" IGAs released by the United States, an FFI in an IGA signatory country could be treated as a "**Reporting FI**" not subject to withholding under FATCA on any payments it receives (or, in the case of certain exempt entities, a "**Nonreporting FI**"). Further, an FFI in an IGA jurisdiction would generally not be required to withhold under FATCA or an IGA (or any law implementing an IGA) (any such withholding being "**FATCA Withholding**") from payments it makes. Under each Model IGA, a Reporting FI would still be required to report certain information in respect of its account holders and investors to its home government or to the IRS. The United States and Italy have entered into an IGA (the "**US-Italy IGA**") based largely on the Model 1 IGA.

If the Issuer is treated as a Reporting FI or Nonreporting FI pursuant to the US-Italy IGA it does not anticipate that it will be not obliged to deduct any FATCA Withholding on payments it makes on the Covered Bonds. There can be no assurance, however, that in the future the Issuer will not be required to deduct FATCA Withholding from payments it makes on the Covered Bonds. Accordingly, the Issuer and financial institutions through which payments on the Covered Bonds are made may be required to withhold FATCA Withholding if (i) any FFI through or to which payment on such Covered Bonds is made is not a Participating FFI, a Reporting FI, or otherwise exempt from or in deemed compliance with FATCA or (ii) an investor is a Recalcitrant Holder.

Whilst the Covered Bonds are cleared through Monte Titoli, it is expected that FATCA will not affect the amount of any payments made under, or in respect of, the Covered Bonds by the Issuer, any paying agent and Monte Titoli, given that each of the entities in the payment chain between the Issuer and the participants in Monte Titoli is a major financial institution whose business is dependent on compliance with FATCA and that any alternative approach introduced under an IGA will be unlikely to affect the Covered Bonds.

FATCA is particularly complex and its application is uncertain at this time. The above description is based in part on regulations, official guidance and model IGAs, all of which are subject to change or may be implemented in a materially different form. Prospective investors should consult their tax advisers on how these rules may apply to payments they may receive in connection with the Covered Bonds. FATCA is particularly complex and its application is uncertain at this time. The above description is based in part on regulations, official guidance and model IGAs, all of which are subject to change or may be implemented in a materially different form. Prospective investors should consult their tax advisers on how these rules may apply to payments they may receive in connection with the Covered Bonds.

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Luxembourg Taxation

The following information is of a general nature only 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. Prospective investors in the Covered Bonds 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 tax, duty, levy, impost or other charge or withholding of a similar nature, or to any other concepts, refers to Luxembourg tax law and/or concepts only. Also, please note that a reference to Luxembourg income tax encompasses corporate income tax (*impôt sur le revenu des collectivités*), municipal business tax (*impôt commercial communal*), a solidarity surcharge (*contribution au fonds pour l'emploi*) as well as personal income tax (*impôt sur le revenu*) generally. Investors may further be subject to net wealth tax (*impôt sur la fortune*) as well as other duties, levies or taxes. Corporate income tax, municipal business tax as well as the solidarity surcharge invariably apply to most corporate taxpayers resident of Luxembourg for tax purposes. Individual taxpayers are generally subject to personal income tax and the solidarity surcharge. Under certain circumstances, where an individual taxpayer acts in the course of the management of a professional or business undertaking, municipal business tax may apply as well.

Taxation of the Bondholders

Withholding Tax

(i) **Non-resident Bondholders**

Under Luxembourg general tax laws currently in force, there is no withholding tax on payments of principal, premium or interest made to non-resident Bondholders, nor on accrued but unpaid interest in respect of the Covered Bonds, nor is any Luxembourg withholding tax payable upon redemption or repurchase of the Covered Bonds held by non-resident Bondholders.

(ii) **Resident Bondholders**

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 Bondholders, nor on accrued but unpaid interest in respect of Covered Bonds, nor is any Luxembourg withholding tax payable upon redemption or repurchase of Covered Bonds held by Luxembourg resident Bondholders.

Under the Relibi Law payments of interest or similar income made or ascribed by a paying agent established in Luxembourg to or for the benefit of an individual beneficial owner who is 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. Payment under the Covered Bonds coming within the scope of the Relibi Law will be subject to withholding tax of 20 per cent.

In addition, pursuant to the Relibi Law, Luxembourg resident individuals can opt to self-declare and pay a 20 per cent. tax on payment of interest or similar incomes made or ascribed by paying agents located in a Member State of the European Union other than Luxembourg or a Member State of the European Economic Area. The 20 per cent. tax is final when Luxembourg resident individuals are acting in the context of the management of their private wealth.

Income Taxation

(i) Non-resident Bondholders

A non-resident Bondholder, not having a permanent establishment or permanent representative in Luxembourg to which/whom such Covered Bonds are attributable, is not subject to Luxembourg income tax on interest accrued or received, redemption premiums or issue discounts, under the Covered Bonds. A gain realised by such non-resident Bondholder on the sale or disposal, in any form whatsoever, of the Covered Bonds is further not subject to Luxembourg income tax.

A non-resident corporate Bondholder or a non-resident individual Bondholder acting in the course of the management of a professional or business undertaking, which/who has a permanent establishment or permanent representative in Luxembourg to which or to whom such Covered Bonds are attributable, is subject to Luxembourg income tax on interest accrued or received, redemption premiums or issue discounts, under the Covered Bonds and on any gains realised upon the sale or disposal, in any form whatsoever, of the Covered Bonds.

(ii) Resident Bondholders

Bondholders who are residents of Luxembourg will not be liable for any Luxembourg income tax on repayment of principal.

A resident corporate Bondholder must include any interest accrued or received, any redemption premium or issue discount, as well as any gain realised on the sale or disposal, in any form whatsoever, of the Covered Bonds, in its taxable income for Luxembourg income tax assessment purposes.

A resident Bondholder that is governed by the law of 11 May 2007 on family estate management companies as amended, or by the law of 17 December 2010 on undertakings for collective investment as amended, or by the law of 13 February 2007 on specialised investment funds, as amended, or by the law of 23 July 2016 on reserved alternative investment funds and which does not fall under the special tax regime set out in article 48 thereof is neither subject to Luxembourg income tax in respect of interest accrued or received, any redemption premium or issue discount, nor on gains realised on the sale or disposal, in any form whatsoever, of the Covered Bonds.

A resident individual Bondholder, acting in the course of the management of his/her private wealth, is subject to Luxembourg income tax at progressive rates in respect of interest received, redemption premiums or issue discounts, under the Covered Bonds, except if (i) withholding tax has been levied on such payments in accordance with the Relibi Law, or (ii) the individual Bondholder has opted for the application of a 20 per cent. tax in full discharge of income tax in accordance with the Relibi Law, which applies if a payment of interest has been made or ascribed by a paying agent established in a EU Member State (other than Luxembourg), or in a Member State of the European Economic Area (other than a EU Member State).

A gain realised by a resident individual Bondholder, acting in the course of the management of his/her private wealth, upon the sale or disposal, in any form whatsoever, of Covered Bonds is not subject to Luxembourg income tax, provided this sale or disposal took place more than six months after the Covered Bonds were acquired. However, any portion of such gain

corresponding to accrued but unpaid interest income is subject to Luxembourg income tax, except if tax has been levied on such interest in accordance with the Relibi Law.

A resident individual Bondholder acting in the course of the management of a professional or business undertaking must include this interest in its taxable basis. If applicable, the tax levied in accordance with the Relibi Law will be credited against his/her final tax liability.

Net Wealth Taxation

A corporate Bondholder, whether it is resident of Luxembourg for tax purposes or, if not, it maintains a permanent establishment or a permanent representative in Luxembourg to which whom such Covered Bonds are attributable, is subject to Luxembourg wealth tax on these Covered Bonds, except if the Bondholder is governed by the law of 11 May 2007 on family estate management companies as amended, or by the law of 17 December 2010 on undertakings for collective investment as amended, or by the law of 13 February 2007 on specialised investment funds, as amended, or is a securitisation company governed by the law of 22 March 2004 on securitisation, as amended, or is a capital company governed by the law of 15 June 2004 on venture capital vehicles, as amended, or is a reserved alternative investment funds within the meaning of the law of 23 July 2016.

However, please note that securitisation companies governed by the law of 22 March 2004 on securitisation, as amended, or capital companies governed by the law of 15 June 2004 on venture capital vehicles, as amended, or reserved alternative investment funds governed by the law of 23 July 2016 and which fall under the special tax regime set out under article 48 thereof may, under certain conditions, be subject to minimum net wealth tax.

This minimum net wealth tax amounts to EUR 4,815, if the relevant corporate Bondholder holds assets such as fixed financial assets, receivables owed to affiliated companies, transferable securities, postal checking accounts, checks and cash, in a proportion that exceeds 90 per cent. of its total balance sheet value and if the total balance sheet value of these very assets exceeds EUR 350,000. Alternatively, if the relevant corporate Bondholder holds 90 per cent. or less of financial assets or if those financial assets do not exceed EUR 350,000, a minimum net wealth tax varying between EUR 535 and EUR 32,100 would apply depending on the size of its balance sheet.

An individual Bondholder, whether she/he is resident of Luxembourg or not, is not subject to Luxembourg wealth tax on such Covered Bonds.

Other Taxes

In principle, neither the issuance nor the transfer, repurchase or redemption of Covered Bonds will give rise to any Luxembourg registration tax or similar taxes.

However, a fixed or *ad valorem* registration duty may be due upon the registration of the Covered Bonds in Luxembourg in the case where the Covered Bonds are either (i) attached as an annex to an act (*annexés à un acte*) that itself is subject to mandatory registration or (ii) deposited in the minutes of a notary (*déposés au rang des minutes d'un notaire*) or (iii) registered on a voluntary basis.

Where a Bondholder is a resident of Luxembourg for tax purposes at the time of her/his death, the Covered Bonds are included in his/her taxable estate for inheritance tax assessment purposes.

Gift tax may be due on a gift or donation of Covered Bonds if embodied in a Luxembourg deed passed in front of a Luxembourg notary or recorded in Luxembourg.

Residence

A Bondholder will not become resident, or deemed to be resident, in Luxembourg by reason only of the holding of such Covered Bond or the execution, performance, delivery and/or enforcement of that or any other Covered Bond.

SUBSCRIPTION AND SALE

Covered Bonds may be sold from time to time by the Issuer to any one or more of the Dealers. The arrangements under which Covered Bonds may from time to time be agreed to be sold by the Issuer to, and purchased by, Dealers are set out in a Programme Agreement dated 18 June 2010 (as amended on 20 December 2013, the "**Programme Agreement**") and made between the Issuer, the Guarantor and the Dealers. Any such agreement will, *inter alia*, make provision for the terms and conditions of the relevant Covered Bonds, the price at which such Covered Bonds will be purchased by the Dealers and the commissions or other agreed deductibles (if any) payable or allowable by the Issuer in respect of such purchase. The Programme Agreement makes provision for the resignation or termination of appointment of existing Dealers and for the appointment of additional or other Dealers either generally in respect of the Programme or in relation to a particular Series or Tranche of Covered Bonds.

United States of America: *Regulation S Category 2; TEFRA D or TEFRA C as specified in the relevant Final Terms or neither if TEFRA is specified as not applicable in the relevant Final Terms.*

The Covered Bonds have not been and will not be registered under the Securities Act 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 Covered Bonds 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. tax regulations. Terms used in this paragraph have the meanings given to them by the U.S. Internal Revenue Code of 1986 and regulations thereunder.

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 Covered Bonds, (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 Covered Bonds on a syndicated basis, the relevant lead manager, of all Covered Bonds of the Tranche of which such Covered Bonds are a part, within the United States or to, or for the account or benefit of, U.S. persons. Each Dealer further agrees, 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 Covered Bonds during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the Covered Bonds 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 Covered Bonds comprising any Series or Tranche, offer or sale of Covered Bonds 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.

Public Offer Selling Restriction Under the Prospectus Directive

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 Covered Bonds which are the subject of the offering contemplated by the Prospectus as completed by the Final Terms in relation thereto (or are the subject of the offering contemplated by a Drawdown Prospectus, as the case may be) 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 Covered Bonds to the public in that Relevant Member State:

(a) *Authorised institutions*: at any time to any legal entity which is a "qualified investor" as defined in the Prospectus Directive;

(b) *Fewer than 150 offers*: 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;

(c) *Other exempt offers*: at any time in any other circumstances falling within article 3(2) of the Prospectus Directive,

provided that no such offer of Covered Bonds 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, the expression an "offer of Covered Bonds to the public" in relation to any Covered Bonds 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 Covered Bonds to be offered so as to enable an investor to decide to purchase or subscribe the Covered Bonds, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State and 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.

Prohibition of Sales to EEA Retail Investors

Unless the Final Terms in respect of any Covered Bonds specifies the "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 Covered Bonds which are the subject of the offering contemplated by this Prospectus as completed by the Final Terms in relation thereto to any retail investor in the European Economic Area. For the purposes of this provision 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 (EU) 2016/97 (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.

If the Final Terms in respect of any Covered Bonds 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 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 Covered Bonds which are the subject of the offering contemplated by this Prospectus as completed by the Final Terms in relation thereto (or are the subject of the offering contemplated by a Drawdown Prospectus, as the case may be) 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 Covered Bonds to the public in that Relevant Member State:

- *Qualified investors*: at any time to any legal entity which is a qualified investor as defined in the Prospectus Directive;

- *Fewer than 150 offerees*: 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

- *Other exempt offers*: at any time in any other circumstances falling within article 3(2) of the Prospectus Directive,

provided that no such offer of Covered Bonds 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, the expression an "**offer of Covered Bonds to the public**" in relation to any Covered Bonds 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 Covered Bonds to be offered so as to enable an investor to decide to purchase or subscribe the Covered Bonds, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State.

Selling Restrictions addressing Additional United Kingdom Securities Laws

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that:

(i) *No deposit-taking*: in relation to any Covered Bonds which have a maturity of less than one year, (i) 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 (ii) it has not offered or sold and will not offer or sell any Covered Bonds other than to persons:

(A) 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; or

(B) 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 Covered Bonds would otherwise constitute a contravention of Section 19 of the FSMA by the Issuer;

(ii) *Financial Promotion*: 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 FSMA) received by it in connection with the issue or sale of any Covered Bonds in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer; and

(iii) *General compliance*: it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any Covered Bonds in, from or otherwise involving the United Kingdom.

Italy

The offering of the Covered Bonds has not been registered with the Commissione Nazionale per le Società e la Borsa ("CONSOB") pursuant to Italian securities legislation and, accordingly, no Covered Bonds may be offered, sold or delivered, nor may copies of the Prospectus or of any other document relating to the Covered Bonds be distributed in the Republic of Italy, except:

(a) to qualified investors (*investitori qualificati*), as defined pursuant to article 100 of Legislative Decree No. 58 of 24 February 1998, as amended (the "**Consolidated Finance Act**") as implemented by article 35, paragraph 1(d) of CONSOB Regulation No. 20307 of 15 February 2018, as amended ("**CONSOB Regulation No. 20307**"), 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

(b) 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 Covered Bonds or distribution of copies of this Prospectus or any other document relating to the Covered Bonds in the Republic of Italy will be effected in accordance with all Italian securities, tax and exchange control and other applicable laws and regulation.

Any such offer, sale or delivery of the Covered Bonds or distribution of copies of this Prospectus or any other document relating to the Covered Bonds in the Republic of Italy must be:

(a) 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 and the Consolidated Banking Act (in each case as amended from time to time);

(b) in compliance with article 129 of the Consolidated Banking Act, as amended, and the implementing guidelines of the Bank of Italy, as amended from time to time; and

(c) in compliance with any other applicable laws and regulations or requirement imposed by CONSOB or any other Italian authority.

Japan

The Covered Bonds 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**"). Accordingly, 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, directly or indirectly, offered or sold and will not, directly or indirectly, offer to sell any Covered Bonds in Japan or to, or for the benefit of, a resident of Japan (which term as used herein means any person resident in Japan, including any corporation or other entity organised under the laws of Japan) or to others for re-offering or resale, directly or indirectly, in Japan or to, or for the benefit of, any resident in Japan, except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, FIEA and other relevant laws and regulations of Japan.

General

Each Dealer has represented, warranted and agreed that it has complied and will comply with all applicable laws and regulations in each country or jurisdiction in or from which it purchases, offers, sells or delivers Covered Bonds or possesses, distributes or publishes this Prospectus or any Final Terms or any related offering material, in all cases at its own expense. Other persons into whose hands this Prospectus or any Final Terms comes are required by the Issuer and the Dealers to comply with all applicable laws and regulations in each country or jurisdiction in or from which they purchase, offer, sell or deliver Covered Bonds or possess, distribute or publish this Prospectus or any Final Terms or any related offering material, in all cases at their own expense.

The Programme Agreement provides that the Dealers shall not be bound by any of the restrictions relating to any specific jurisdiction (set out above) to the extent that such restrictions shall, as a result of change(s) or change(s) in official interpretation, after the date hereof, of applicable laws and regulations, no longer be applicable but without prejudice to the obligations of the Dealers described in the paragraph headed "*General*" above.

Selling restrictions may be supplemented or modified with the agreement of the Issuer and the Dealers. Any such supplement or modification may be set out in a supplement to this Prospectus.

GENERAL INFORMATION

Approval, Listing and Admission to Trading

This Prospectus has been approved as a base prospectus issued in compliance with the Prospectus Directive by the *Commission de Surveillance du Secteur Financier* ("**CSSF**") in its capacity as competent authority in the Grand Duchy of Luxembourg for the purposes of the Prospectus Directive. Application has been made for Covered Bonds issued under the Programme to be listed on the official list and admitted to trading on the regulated market of the Luxembourg Stock Exchange.

However, Covered Bonds may be issued pursuant to the Programme which will be unlisted or be admitted to listing, trading and/or quotation by such other competent authority, stock exchange or quotation system as the Issuer and the relevant Dealer(s) may agree.

The CSSF may, at the request of the Issuer, send to the competent authority of another Member State of the European Economic Area: (i) a copy of this Prospectus; and (ii) a certificate of approval attesting that this Prospectus has been drawn up in accordance with the Prospectus Directive; and (iii) if so required by the competent authority of such Member State, a translation into the official language(s) of such Member State of a summary of this Prospectus.

Authorisations

The establishment of the Programme and the issue of Covered Bonds have been duly authorised by a resolution of the board of directors of the Issuer dated 6 May 2010 and the giving of the Guarantee has been duly authorised by a resolution of the board of directors of the Guarantor dated 18 May 2010.

The annual update of the Programme and the increase of the Programme Limit has been authorised by the resolution of the board of directors of the Issuer dated 5 October 2017.

The Issuer has obtained or will obtain from time to time all necessary consents, approvals and authorisations in connection with the issue and performance of the Covered Bonds.

Legal and Arbitration Proceedings

Save as disclosed in this Prospectus in section headed "*Risks deriving from judicial and administrative proceedings*" (set out in the section "*Risk factors*" of this Prospectus) from page 48 to page 57 of this Prospectus, there are no governmental, legal or arbitration proceedings, (including any such proceedings which are pending or threatened, of which the Issuer or the Guarantor is aware), which may have, or have had during the twelve months prior to the date of this Prospectus, a significant effect on the financial position or profitability of the Issuer or the Guarantor.

Trend Information / No Significant Change

Since 30 September 2018 there has been no significant change in the financial or trading position of the Issuer and of Montepaschi Group.

Since 31 December 2017 there has been no material adverse change in the prospects of the Guarantor and since 31 December 2017 there has been no significant change in the financial position of the Guarantor.

Minimum denomination

Where Covered Bonds issued under the Programme are 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, such Covered Bonds will not have a denomination of less than €100,000 (or, where the Covered Bonds are issued in a currency other than euro, the equivalent amount in such other currency).

Documents Available

So long as Covered Bonds are capable of being issued under the Programme, copies of the following documents will, when published, be available (in English translation, where necessary) free of charge during usual business hours on any weekday (Saturdays, Sundays and public holidays excepted) for inspection at the registered office of the Issuer:

(a) the by-laws of the Issuer and the constitutive documents of the Guarantor;

(b) the audited consolidated annual financial statements of the Issuer as at and for the years ended 31 December 2016 and 31 December 2017;

(c) the unaudited half-yearly consolidated financial report of the Issuer as at and for the period ended 30 June 2017 and 30 June 2018;

(d) the consolidated unaudited interim financial report of BMPS as at 30 September 2017 and 30 September 2018;

(e) the audited financial statements of the Guarantor as at and for the years ended 31 December 2016 and 31 December 2017;

(f) the auditors' reports for the Issuer for the financial year ended 31 December 2016 and for the year ended 31 December 2017;

(g) the auditors' reports for the Guarantor for the financial year ended 31 December 2016 and for the year ended 31 December 2017;

(h) a copy of this Prospectus;

(i) any future offering circular, prospectuses, information memoranda and supplements to this Prospectus including Final Terms and any other documents incorporated herein or therein by reference;

(j) each of the following documents (as amended and restated from time to time, the "**Programme Documents**"), namely:

- Guarantee;
- Subordinated Loan Agreements;
- Master Assets Purchase Agreement;
- Cover Pool Management Agreement;

- Warranty and Indemnity Agreement;
- Master Servicing Agreement;
- Asset Monitor Agreement;
- Quotaholders' Agreement;
- Cash Allocation, Management and Payments Agreement;
- English Account Bank Agreement;
- Covered Bond Swap Agreements;
- Asset Swap Agreements;
- Mandate Agreement;
- Deed of Pledge;
- Deed of Charge
- Intercreditor Agreement;
- Guarantor Corporate Services Agreement;
- Programme Agreement; and
- Master Definitions Agreement.

Auditors

On 29 April 2011 the Issuer has appointed EY S.p.A., with registered office at Via Po 32, 00198, Rome, Italy and authorized and regulated by the MEF and registered on the special register of auditing firms held by the MEF. EY S.p.A. has audited and rendered unqualified audit reports on the consolidated financial statements of the Issuer for the year ended 31 December 2015 and for the year ended 31 December 2016.

EY S.p.A. has been appointed (i) on 17 June 2013 to perform the audit of the financial statements of the Guarantor for the period between the year ended on 31 December 2013 and the year ended on 31 December 2015 and (ii) on 13 April 2016 to perform the audit of the financial statements of the Guarantor for the period between the year ended on 31 December 2016 and the year ended on 31 December 2018.

Post-Issuance information

The Issuer will not provide any post-issuance information, except if required by any applicable laws and regulations.

Material Contracts

Neither the Issuer nor the Guarantor nor any of their respective subsidiaries has entered into any contracts in the last two years outside the ordinary course of business that have been or may be reasonably expected to be material to their ability to meet their obligations to Bondholders.

Clearing of the Covered Bonds

The Covered Bonds issued in bearer and dematerialised form have been accepted for clearance through Monte Titoli, Euroclear and Clearstream. The appropriate common code and the International Securities Identification Number in relation to the Covered Bonds of each Tranche will be specified in the relevant Final Terms. The relevant Conditions and/or Final Terms shall specify (i) any other clearing system for the Covered Bonds issued in bearer and dematerialised form as shall have accepted the relevant Covered Bonds for clearance together with any further appropriate information or (ii) with respect to Covered Bonds issued in any of the other form which may be indicated in the relevant Conditions and/or Final Terms, the indication of the agent or registrar through which payments to the Bondholders will be performed.

Yield

In relation to any Tranche of Fixed Rate Covered Bonds and Zero Coupon Bonds, an indication of the yield in respect of such Covered Bonds will be specified in the applicable Final Terms. The yield is calculated at the Issue Date of the Covered Bonds on the basis of the relevant Issue Price. The yield indicated will be calculated as the yield to maturity as at the Issue Date of the Covered Bonds and will not be an indication of future yield.

Dealers Transacting with the Issuer

MPS Capital Services Banca per le Imprese S.p.A. belongs to the Monte dei Paschi Group and is subject to control and guidelines of Banca Monte dei Paschi di Siena S.p.A..

Besides, 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 Covered Bonds issued under the Programme. Any such short positions could adversely affect future trading prices of Covered Bonds 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.

GLOSSARY

"**15% Limit**" means the limit of 15 per cent. (of the aggregate outstanding principal amount of the Cover Pool) of Top-Up Assets that may be included in the Cover Pool unless otherwise permitted by law or applicable regulation.

"**Accrual Yield**" has the meaning given in the relevant Final Terms.

"**Accrued Interest**" means, as of any Valuation Date and in relation to any Eligible Asset to be assigned as at that date, the portion of the Interest Instalment accrued, but not yet due, as at such date.

"**Additional Criteria**" means the further criteria which can be identified pursuant to clause 2.3.2(c) of the Master Assets Purchase Agreement.

"**Additional Seller**" means any entity being part of the Montepaschi Group that may transfer one or more New Portfolios to the Guarantor following the accession to the Programme pursuant to the Programme Documents.

"**Additional Servicer**" means each Additional Seller which has been appointed as servicer in relation to the Assets transferred to the Guarantor, following the accession to the Programme and to the Master Servicing Agreement, pursuant to the Programme Documents.

"**Additional Subordinated Lender**" means each Additional Seller in its capacity as additional subordinated lender, pursuant to the relevant Subordinated Loan Agreement.

"**Adjustment Purchase Price**" means the purchase price adjusted on the basis of calculations carried out pursuant to clause 7 of the Master Assets Purchase Agreement.

"**Affected Assets**" has the meaning ascribed to the term "*Attivi Interessati*" in the Warranty and Indemnity Agreement.

"**Affected Party**" has the meaning ascribed to that term in the Swap Agreements.

"**Adjusted Aggregate Asset Amount**" means the amount calculated pursuant to the formula set out in clause 3.3 of the Cover Pool Management Agreement.

"**Amortisation Test**" means the Test as indicated in clause 4 of the Cover Pool Management Agreement.

"**Assets**" means, collectively, the Eligible Assets and the Top-Up Assets.

"**Asset Backed Securities**" means, pursuant to article 2, sub-paragraph 1, of Decree No. 310 the asset backed securities for which a risk weight not exceeding 20 per cent. is applicable in accordance with the Bank of Italy's prudential regulations for banks - standardised approach - **provided that** at least 95 per cent. of the relevant securitised assets are:

(i) Residential Mortgage Loans;

(ii) Commercial Mortgage Loans;

(iii) Public Entity Receivables or Public Entity Securities.

and, in any case, complying with the requirements of the ECB Guidelines.

"**Asset Coverage Test**" has the meaning as indicated pursuant to clause 3 of the Cover Pool Management Agreement.

"**Asset Monitor**" means Deloitte & Touche S.p.A. in its capacity as asset monitor pursuant to the Asset Monitor Engagement Letter and the Asset Monitor Agreement.

"**Asset Monitor Agreement**" means the agreement entered on 18 June 2010 between, *inter alios*, the Asset Monitor, the Issuer and the Guarantor, as amended from time to time.

"**Asset Monitor Engagement Letter**" means the engagement letter entered into, on 18 June 2010, between the Issuer and the Asset Monitor in order to perform specific agreed upon procedures concerning, *inter alia*, (i) the fulfilment of the eligibility criteria set out under Decree No. 310 with respect to the Eligible Assets and Top-Up Assets included in the Cover Pool; (ii) the compliance with the limits to the transfer of the Eligible Assets set out under Decree No. 310; and (iii) the effectiveness and adequacy of the risk protection provided by any Swap Agreement entered into in the context of the Programme.

"**Asset Monitor Report Date**" means any date on which the Asset Monitor shall deliver a report including the results of the verifications carried out by it under the terms of the Asset Monitor Agreement.

"**Asset Percentage**" means the lower of (i) 83.00 per cent. and (ii) such other percentage figure as may be determined by the Issuer on behalf of the Guarantor in accordance with the methodologies published by the Rating Agencies (after procuring the level of overcollateralisation in line with the target rating). Such new figure of the Asset Percentage shall be set out in the Payments Report and shall thus form part of the calculation of the Asset Coverage Test. Notwithstanding the above, in the event the Issuer chooses not to apply such other percentage figure (item (ii) above) of the Asset Percentage, this will not result in a breach of the Asset Coverage Test.

"**Asset Swap Agreement**" means any asset swap agreement which may be entered into between an Asset Swap Provider and the Guarantor.

"**Asset Swap Provider**" means any entity acting as swap counterparty under an Asset Swap Agreement.

"**Back-Up Account Bank**" means any of the Italian Back-Up Account Bank and the English Back-Up Account Bank.

"**Back-Up Servicer**" means Securitisation Services S.p.A. or any other company that will be appointed in such capacity by the Guarantor, together with the Representative of the Bondholders, pursuant to clause 10.1 of the Master Servicing Agreement.

"**Back-up Servicer Facilitator**" means Securitisation Services S.p.A. or any other entity acting in such capacity pursuant to the Servicing Agreement.

"**Bank of Italy Regulations**" means the regulations No. 285 issued by the Bank of Italy on 17 December 2013, as supplemented from time to time.

"**Bankruptcy Law**" means Royal Decree No. 267 of 16 March 1942, as subsequently amended and supplemented.

"**Base Interest**" has the meaning given to the term "*Interesse Base*" pursuant to the Subordinated Loan Agreement.

"**BMPS**" means Banca Monte dei Paschi di Siena S.p.A..

"**Bondholders**" means the holders from time to time of the Covered Bonds included in each Series or Tranche of Covered Bonds.

"**Breach of Tests Cure Notice**" means the notice delivered by the Representative of the Bondholders in accordance with the terms of the Cover Pool Management Agreement.

"**Breach of Test Notice**" means the notice delivered by the Representative of the Bondholders in accordance with the terms of the Cover Pool Management Agreement following the infringement of one of the Tests prior to an Issuer Event of Default and/or a Guarantor Event of Default.

"**Business Day**" means any day (other than a Saturday or Sunday) on which banks are generally open for business in Milan, Luxembourg and London and on which the Trans-European Automated Real Time Gross Settlement Express Transfer System (TARGET 2) (or any successor thereto) is open.

"**Business Day Convention**", in relation to any particular date, has the meaning given in the relevant Final Terms and, if so specified in the relevant Final Terms, may have different meanings in relation to different dates and, in this context, the following expressions shall have the following meanings:

(i) "**Following Business Day Convention**" means that the relevant date shall be postponed to the first following day that is a Business Day;

(ii) "**Modified Following Business Day Convention**" or "**Modified Business Day Convention**" means that the relevant date shall be postponed to the first following day that is a Business Day unless that day falls in the next calendar month in which case that date will be the first preceding day that is a Business Day;

(iii) "**Preceding Business Day Convention**" means that the relevant date shall be brought forward to the first preceding day that is a Business Day;

(iv) "**FRN Convention**", "**Floating Rate Convention**" or "**Eurodollar Convention**" means that each relevant date shall be the date which numerically corresponds to the preceding such date in the calendar month which is the number of months specified in the relevant Final Terms as the Specified Period after the calendar month in which the preceding such date occurred provided, however, that:

(A) if there is no such numerically corresponding day in the calendar month in which any such date should occur, then such date will be the last day which is a Business Day in that calendar month;

(B) if any such date would otherwise fall on a day which is not a Business Day, then such date will be the first following day which is a Business Day unless that day

falls in the next calendar month, in which case it will be the first preceding day which is a Business Day; and

(C) if the preceding such date occurred on the last day in a calendar month which was a Business Day, then all subsequent such dates will be the last day which is a Business Day in the calendar month which is the specified number of months after the calendar month in which the preceding such date occurred; and

(v) "**No Adjustment**" means that the relevant date shall not be adjusted in accordance with any Business Day Convention.

"**Calculation Amount**" is the amount used for the calculation of interest amounts and redemption amounts for the relevant covered bonds as specified in the relevant Final Terms.

"**Calculation Period**" means the period from one Guarantor Calculation Date (included) to the next Guarantor Calculation Date (excluded).

"**Call Option**" has the meaning given in the relevant Final Terms.

"**Cash Allocation, Management and Payments Agreement**" means the cash allocation, management and payments agreement entered on 18 June 2010 between, *inter alios*, the Guarantor, the Representative of the Bondholders, the Paying Agent(s), the Italian Account Bank and the English Account Bank, as amended from time to time.

"**Cash Manager**" means BMPS acting in such capacity pursuant to the Cash Allocation, Management and Payments Agreement or any other entity acting in such capacity pursuant to the Cash Allocation, Management and Payments Agreement.

"**Cash Manager Report**" means the report produced by the Cash Manager pursuant to the Cash Allocation, Management and Payments Agreement.

"**Cessation of Business**" means, with respect to the Issuer, the loss of the banking licence.

"**Civil Code**" means the Italian civil code, enacted by Royal Decree No. 262 of 16 March 1942, as subsequently amended and supplemented.

"**Clearstream"** means Clearstream Banking *société anonyme*, Luxembourg with offices at 42 avenue JF Kennedy, L-1855 Luxembourg.

"**Collateral Account(s)**" means any other cash and/or securities account (different from the Guarantor's Accounts) opened by the Guarantor pursuant to clause 7.4 of the Intercreditor Agreement.

"**Collateral Security**" means any security (including any loan mortgage insurance and excluding Mortgages) granted to the Principal Seller (or any Additional Seller(s), if any) by any Debtor in order to guarantee the payment and/or redemption of any amounts due under the relevant Mortgages Loan Agreement.

"**Collection Date**" means (i) prior to the service of a Guarantor Default Notice, the first calendar day of each month; and (ii) following the service of a Guarantor Default Notice, each date determined by the Representative of the Bondholders as such.

"**Collection Period**" means the Monthly Collection Period and/or the Quarterly Collection Period, as applicable.

"**Collections**" means all amounts received or recovered by the Servicer in respect of the Assets included in the Cover Pool.

"**Commercial Mortgage Loan**" means, pursuant to article 2, sub-paragraph 1, of Decree No. 310 a commercial mortgage loan in respect of which the relevant amount outstanding added to the principal amount outstanding of any higher-ranking mortgage loans secured by the same property does not exceed 60 per cent. and for which the hardening period with respect to the perfection of the relevant mortgage has elapsed.

"**Common Criteria**" means the criteria listed in schedule 1 to the Master Assets Purchase Agreement.

"**CONSOB**" means Commissione Nazionale per le Società e la Borsa.

"**Consolidated Banking Act**" means Legislative Decree No. 385 of 1 September 1993, as subsequently amended and supplemented.

"**Contractual Rights**" has the meaning given to it pursuant to the Mandate Agreement.

"**Corporate Services Agreement**" means the corporate services agreement entered on 18 June 2010 between, *inter alios*, the Guarantor and the Guarantor Corporate Servicer.

"**Corresponding Interest**" has the meaning given to the term "Interesse Collegato" in the Subordinated Loan Agreement.

"**Corresponding Series or Tranche of Covered Bonds**" means, in respect of a Fixed Interest Term Loan or a Floating Interest Term Loan, the Series or Tranche of Covered Bonds issued or to be issued pursuant to the Programme and notified by the Subordinated Lender to the Guarantor in the relevant Term Loan Proposal.

"**Cover Pool**" means the cover pool constituted by (i) Receivables; (ii) any other Eligible Assets; and (iii) any Top-Up Assets.

"**Cover Pool Management Agreement**" means the Cover Pool management agreement entered on 18 June 2010 between, *inter alios*, the Issuer, the Guarantor, the Principal Seller, the Pre-Issuer Default Test Calculation Agent, the Post-Issuer Default Test Calculation Agent, the Guarantor Calculation Agent and the Representative of the Bondholders, as amended from time to time.

"**Covered Bond Swap Agreement**" means each International Swaps and Derivatives Association ("**ISDA**") 1992 Master Agreement (*Multicurrency Cross Border*) (together with the Schedule and credit support annex thereto and the confirmations evidencing interest rate swap transactions thereunder) entered into from time to time between the Guarantor and a Covered Bond Swap Provider, as amended from time to time.

"**Covered Bond Swap Provider**" means any entity acting as covered bond swap provider under a Covered Bond Swap Agreement to the Guarantor and "**Covered Bond Swap Providers**" means more than one of them.

"**Covered Bonds**" means the Covered Bonds (*Obbligazioni Bancarie Garantite*) of each Series or Tranche issued or to be issued by the Issuer in the context of the Programme.

"**Credit and Collection Policy**" means the procedures for the management, collection and recovery of the Receivables attached as schedule 3 to the Master Servicing Agreement.

"**Criteria**" means, collectively, the Common Criteria, the Specific Criteria and any Additional Criteria pursuant to the terms of the Master Assets Purchase Agreement.

"**Day Count Fraction**" means, in respect of the calculation of an amount for any period of time (the "**Calculation Period**"), such day count fraction as may be specified in the Terms and Conditions or the relevant Final Terms and:

(i) if "**Actual/Actual (ICMA)**" is so specified, means:

(A) where the Calculation Period is equal to or shorter than the Regular Period during which it falls, the actual number of days in the Calculation Period divided by the product of (1) the actual number of days in such Regular Period and (2) the number of Regular Periods in any year; and

(B) where the Calculation Period is longer than one Regular Period, the sum of:

(1) the actual number of days in such Calculation Period falling in the Regular Period in which it begins divided by the product of (a) the actual number of days in such Regular Period and (b) the number of Regular Periods in any year; and

(2) the actual number of days in such Calculation Period falling in the next Regular Period divided by the product of (a) the actual number of days in such Regular Period and (b) the number of Regular Periods in any year;

(ii) if "**Actual/Actual (ISDA)**" is so specified, means the actual number of days in the Calculation Period divided by 365 (or, if any portion of the Calculation Period falls in a leap year, the sum of (A) the actual number of days in that portion of the Calculation Period falling in a leap year divided by 366 and (B) the actual number of days in that portion of the Calculation Period falling in a non-leap year divided by 365);

(iii) if "**Actual/365 (Fixed)**" is so specified, means the actual number of days in the Calculation Period divided by 365;

(iv) if "**Actual/360**" is so specified, means the actual number of days in the Calculation Period divided by 360;

(v) if "**30/360**" is so specified, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows

$$\text{Day Count Fraction} = \frac{[360x(Y_2 - Y_1)] + [30x(M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

"**Y1**" is the year, expressed as a number, in which the first day of the Calculation Period falls;

"**Y2**" is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"**M1**" is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

"**M2**" is the calendar month, expressed as number, in which the day immediately following the last day included in the Calculation Period falls;

"**D1**" is the first calendar day, expressed as a number, of the Calculation Period, unless such number would be 31, in which case D1 will be 30; and

"**D2**" is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless such number would be 31 and D1 is greater than 29, in which case D2 will be 30";

(vi) if "**30E/360**" or "**Eurobond Basis**" is so specified, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360x(Y_2 - Y_1)] + [30x(M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

"**Y1**" is the year, expressed as a number, in which the first day of the Calculation Period falls;

"**Y2**" is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"**M1**" is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

"**M2**" is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"**D1**" is the first calendar day, expressed as a number, of the Calculation Period, unless such number would be 31, in which case D1 will be 30; and

"**D2**" is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless such number would be 31, in which case D2 will be 30; and

(vii) if "**30E/360 (ISDA)**" is so specified, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360x(Y_2 - Y_1)] + [30x(M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

"**Y1**" is the year, expressed as a number, in which the first day of the Calculation Period falls;

"**Y2**" is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"**M1**" is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

"**M2**" is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"**D1**" is the first calendar day, expressed as a number, of the Calculation Period, unless (i) that day is the last day of February or (ii) such number would be 31, in which case D1 will be 30; and

"**D2**" is the calendar day, expressed as a number, immediately following the last day included in the Calculation 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 D2 will be 30,

provided, however, that in each such case the number of days in the Calculation Period is calculated from and including the first day of the Calculation Period to but excluding the last day of the Calculation Period.

"**DBRS**" means DBRS Ratings Limited.

"**DBRS Equivalent Rating**" means the DBRS rating equivalent of any of the below ratings by Moody's, Fitch or S&P:

DBRS	Moody's	S&P	Fitch
AAA	Aaa	AAA	AAA
AA(high)	Aa1	AA+	AA+
AA	Aa2	AA	AA
AA(low)	Aa3	AA-	AA-
A(high)	A1	A+	A+
A	A2	A	A
A(low)	A3	A-	A-
BBB(high)	Baa1	BBB+	BBB+
BBB	Baa2	BBB	BBB
BBB(low)	Baa3	BBB-	BBB-
BB(high)	Ba1	BB+	BB+
BB	Ba2	BB	BB
BB(low)	Ba3	BB-	BB-
B(high)	B1	B+	B+
B	B2	B	B
B(low)	B3	B-	B-
CCC(high)	Caa1	CCC+	CCC+
CCC	Caa2	CCC	CCC
CCC(low)	Caa3	CCC-	CCC-

DBRS	Moody's	S&P	Fitch
CC	Ca	CC	CC
C	C	D	D

"**DBRS Rating**" is any of the following:

- Public rating
- Private rating
- Internal assessment

(a) if a Fitch public rating, a Moody's public rating and an S&P public rating in respect of the Eligible Investment or the Eligible Institution (each, a "**Public Long Term Rating**") are all available at such date, the DBRS Rating will be the DBRS Equivalent Rating of such Public Long Term Rating remaining after disregarding the highest and lowest of such Public Long Term Ratings from such rating agencies (**provided that** if such Public Long Term Rating is under credit watch negative, or the equivalent, then the DBRS Equivalent Rating will be considered one notch below). For this purpose, if more than one Public Long Term Rating has the same highest DBRS Equivalent Rating or the same lowest DBRS Equivalent Rating, then in each case one of such Public Long Term Ratings shall be so disregarded;

(b) if the DBRS Rating cannot be determined under (a) above, but Public Long Term Ratings of the Eligible Investment by any two of Fitch, Moody's and S&P are available at such date, the DBRS Equivalent Rating of the lower such Public Long Term Rating (**provided that** if such Public Long Term Rating is under credit watch negative, or the equivalent, then the DBRS Equivalent Rating will be considered one notch below); and

(c) if the DBRS Rating cannot be determined under (a) and (b) above, but Public Long Term Ratings by any one of Fitch, Moody's and S&P are available at such date, then the DBRS Equivalent Rating will be such Public Long Term Rating (**provided that** if such Public Long Term Rating is under credit watch negative, or the equivalent, then the DBRS Equivalent Rating will be considered one notch below).

If at any time the DBRS Rating cannot be determined under subparagraphs (a) to (c) above, the DBRS Rating will be deemed to be of "C" at such time.

"**Dealers**" means NatWest Markets Plc, Morgan Stanley & Co. International plc, MPS Capital Services Banca per le Imprese S.p.A. and any other entity that will be appointed as such by the Issuer by means of the subscription of a letter under the terms or substantially under the terms provided in schedule 6 of the Programme Agreement.

"**Debtor**" means (i) with reference to the Mortgage Loans, any borrower and any other person, other than a Mortgagor, who entered into a Mortgage Loan Agreement as principal debtor or guarantor or who is liable for the payment or repayment of amounts due in respect of a Mortgage Loan, as a consequence, *inter alia*, of having granted any Collateral Security or having assumed the borrower's obligation under an *accollo*, or otherwise; and (ii) with reference to the Asset Backed Securities, the relevant Issuer.

"**Decree No. 213**" means Italian Legislative Decree No. 213 of 24 June 1998, as amended and supplemented from time to time.

"**Decree No. 239**" means the Italian Legislative Decree No. 239 of 1 April 1996, as subsequently amended and supplemented.

"**Decree No. 310**" means the ministerial decree No. 310 of 14 December 2006 issued by the Ministry of the Economy and Finance, as subsequently amended and supplemented.

"**Deed of Pledge**" means the Italian law deed of pledge entered on 18 June 2010.

"**Defaulted Asset Backed Securities**" means any Asset Backed Securities in respect of which an insolvency event or another event contractually indicated as event of default by the relevant issuer has occurred and is continuing pursuant to the relevant terms and conditions.

"**Defaulted Assets**" means, collectively, the Defaulted Receivables and the Defaulted Asset Backed Securities.

"**Defaulted Receivables**" means any Receivable (i) which has been classified as "defaulted" (*credito in sofferenza*) pursuant to the Bank of Italy's supervisory regulations (*Istruzioni di Vigilanza della Banca d'Italia*) and the Credit and Collection Policy; or (ii) in respect of which there are 12 unpaid Instalments (in respect of Receivables deriving from Mortgage Loans with monthly instalments), 7 unpaid Instalments (in respect of Receivables deriving from Mortgage Loans with quarterly instalments) or 4 unpaid Instalments (in respect of Receivables deriving from Mortgage Loans with semi-annual instalments).

"**Defaulting Party**" has the meaning ascribed to that term in the Swap Agreements.

"**Delinquent Assets**" means the Delinquent Receivables.

"**Delinquent Receivables**" means any Receivable (i) which has been classified as "delinquent" (*credito ad incaglio*) pursuant to the Bank of Italy's supervisory regulations (*Istruzioni di Vigilanza della Banca d'Italia*) and the Credit and Collection Policy, or (ii) in respect of which there are 7 unpaid Instalments (in respect of Receivables deriving from Mortgage Loans with monthly instalments), 5 unpaid Instalments (in respect of Receivables deriving from Mortgage Loans with quarterly instalments) or 3 unpaid Instalments (in respect of Receivables deriving from Mortgage Loans with semi-annual instalments), or (iii) deriving from Mortgage Loans which have been restructured in connection with the accession to the "*Combatti la crisi*" program.

"**Documentation**" means (i) any documentation relating to the Receivables comprised in the Portfolio; (ii) any documentation relating to the operations of securitisation in the context of which the Asset Backed Securities have been issued pursuant to Law 130; and (iii) any other documents relating to Eligible Assets and/or Top-Up Assets transferred from time to time by each Seller in the context of the Programme.

"**Drawdown Date**" means the date indicated in each Term Loan Proposal on which a Term Loan is granted pursuant to the Subordinated Loan Agreement (or, in respect of any Additional Subordinated Lenders, pursuant to the relevant Subordinated Loan Agreement) during the Subordinated Loan Availability Period.

"**Due for Payment**" means the requirement for the Guarantor to pay any Guaranteed Amounts following the delivery of a Guarantee Enforcement Notice after the occurrence of certain Issuer Event of Default, such requirement arising:(i) prior to the occurrence of a Guarantor Event of Default, on the date on which the Guaranteed Amounts are due and payable in accordance with the Terms and Conditions and the Final Terms of the relevant Series or Tranche of Covered Bonds (being the relevant Maturity Date or Extended Maturity Date, as the case may be); and(ii) following the occurrence of a Guarantor Event of Default, the date on which the Guarantor Default Notice is served on the Guarantor.

"**Earliest Maturing Covered Bonds**" means, at any time, the Series or Tranche of Covered Bonds that has or have the earliest Maturity Date (if the relevant Series or Tranche of Covered Bonds is not subject to an Extended Maturity Date) or Extended Maturity Date (if the relevant Series or Tranche of Covered Bonds is subject to an Extended Maturity Date) as specified in the relevant Final Terms.

"**Early Redemption Amount (Tax)**" means, in respect of any Series of Covered Bonds, the principal amount of such Series or such other amount as may be specified in, or determined in accordance with, the relevant Final Terms.

"**Early Termination Amount**" means, in respect of any Series or Tranche of Covered Bonds, the principal amount of such Series or Tranche or such other amount as may be specified in, or determined in accordance with, the Terms and Conditions or the relevant Final Terms.

"**ECB Guidelines**" means the Guideline of the European Central Bank of 20 September 2011 (ECB/2011/14), published on the Official Gazette of the European Union No. 331 of 14 December 2011, as amended by the Guideline of the European Central Bank on 26 November 2012 (ECB/2012/25) published on the Official Gazette of the European Union No. 348 on 18 December 2012, both relating to monetary policy instruments and procedures of the Eurosystem, and the decisions of the European Central Bank dated, respectively, 20 March 2013 (ECB/2013/6), on the rules concerning the use as collateral for Eurosystem monetary policy operations of own-use uncovered government-guaranteed bank bonds, and 26 September 2013 on additional measures relating to Eurosystem refinancing operations and eligibility of collateral (ECB/2013/35), as subsequently amended and supplemented.

"**Eligible Assets**" means the following assets contemplated under article 2, sub-paragraph 1, of Decree No. 310:

(i) Residential Mortgage Loans;

(ii) Asset Backed Securities.

"**Eligible Institution**" means any credit institution incorporated under the laws of any state which is a member of the EEA or of the United States, whose short-term unsecured and unsubordinated debt obligations with respect to DBRS have a DBRS Rating or DBRS Equivalent Rating equal to the Minimum DBRS Rating, at least "F-1" by Fitch and at least "P-1" by Moody's and whose long-term unsecured and unsubordinated debt obligations are rated at least "A" by Fitch and at least "P-1" by Moody's no long term Moody's rating, (**provided that**, if any of the above credit institutions is on rating watch negative, it shall be treated as one notch below its current Fitch rating) or any other rating level from time to time provided for in the Rating Agencies' criteria.

"**Eligible Investment**" means any investment denominated in Euro (unless a suitable hedging is in place) that has a maturity date falling, or which is redeemable at par together with accrued unpaid interest, no later than the next following Eligible Investment Liquidation Date and that is an obligation of a company incorporated in, or a sovereign issuer of, a Qualifying Country (as defined below), **provided that** in case of downgrade below such rating level the securities will be sold, if it could be achieved without a loss, otherwise the securities shall be allowed to mature, and is one or more of the following obligations or securities (including, without limitation, any obligations or securities for which the Cash Manager or the Representative of the Bondholders or an affiliate of any of them provides services):

(i) direct obligations of any agency or instrumentality of a sovereign of a Qualifying Country, the obligations of which agency or instrumentality are unconditionally and irrevocably guaranteed in full by a Qualifying Country, a "Qualifying Country" being a country rated at the time of such investment or contractual commitment providing for such investment in such obligations, at least "AA-" or "F1+" by Fitch, "Aa3" and "P-1" by Moody's and AA (low) or R-1 (middle) by DBRS;

(ii) demand and time deposits in, certificates of deposit of and bankers' acceptances issued by any depositary institution or trust company (including, without limitation, the English Account Bank and the Italian Account Bank) incorporated under the laws of a Qualifying Country with, in each case, a maturity of no more than 30 days (and in any case falling prior to the immediately following Eligible Investment Liquidation Date) and subject to supervision and examination by governmental banking authorities, **provided that** the commercial paper and/or the debt obligations of such depositary institution or trust company (or, in the case of the principal depositary institution in a holding company system, the commercial paper or debt obligations of such holding company) at the time of such investment or contractual commitment providing for such investment have a credit rating of at least "A" and "F1" by Fitch,"A2" and "P-1" by Moody's and with respect to DBRS rated according to the "DBRS A" table;

(iii) any security rated at least (A) "P-1" by Moody's, "A" and "F1" by Fitch and with respect to DBRS according to the DBRS A, if the relevant maturity is up to 30 calendar days, (B) "P-1" by Moody's and "AA-" or "F1+" by Fitch and with respect to DBRS according DBRS B table, if the relevant maturity is up to 365 calendar days **provided that**, in all cases, the maximum aggregate total exposures in general to classes of assets with certain ratings by the Ratings Agencies will, if requested by any Rating Agencies, be limited to the maximum percentages specified by any such Rating Agencies;

(iv) any Top-Up Asset and/or Public Entity Securities and/or Asset Backed Securities, **provided that**, in all cases, such investments shall from time to time comply with Rating Agencies' criteria;

(v) subject to the rating of the Covered Bonds not being affected, unleveraged repurchase obligations with respect to: (1) commercial paper or other short-term obligations having, at the time of such investment, a credit rating of at least "AA-" or "F1+" by Fitch, "Aa3" and "P-1" by Moody's and a maturity of not more than 180 days from their date of issuance and with respect to DBRS, a credit rating of the counterparty according to the DBRS A and DBRS B tables; (2) off-shore money market funds rated, at all times, "AAA/V-1" by Fitch and "Aaa/MR1+" by Moody's and with respect to DBRS, a credit rating of the counterparty according to the tables DBRS A and DBRS B; and (3) any other investment similar to those described in paragraphs (1) and (2) above: (a)

provided that any such other investment will not affect the rating of the Covered Bonds; and (b) which has the same rating as the investment described in paragraphs (1) and (2) above, **provided that**, (x) in any event, none of the Eligible Investments set out above may consist, in whole or in part, actually or potentially, of credit-linked notes or similar claims resulting from the transfer of credit risk by means of credit derivatives nor may any amount available to the Guarantor in the context of the Programme otherwise be invested in any such instruments at any time and (y) title to the securities underlying such repurchase transactions (in the period between the execution of the relevant repurchase transactions and their respective maturity) effectively passes (as confirmed by a non qualified legal opinion by a primary standing law firm) to the Issuer and the obligations of the relevant counterparty are not related to the performance of the underlying securities.

DBRS A Table:

Eligible Investments with a maturity up to 30 days: CB Rating	Eligible Investment Rating
AAA	A or R-1(middle)
AA (high)	A or R-1(middle)
AA	A or R-1(middle)
AA (low)	A or R-1(middle)
A (high)	BBB (high) or R-2 (high)
A	BBB or R-2 (middle)
A (low)	BBB (low) or R-2 (low)
BBB (high)	BBB (low) or R-2 (low)
BBB	BBB (low) or R-2 (low)
BBB (low)	BBB (low) or R-2 (low)
BB (high)	BB (high) or R-3
BB	BB or R-4
BB (low)	BB (low) or R-4

DBRS B Table:

Maximum maturity	CB rated at least AA (low)	CB rated between A (high) and A (low)	CB rated BBB (high) and below
90 days	AA (low) or R-1 (middle)	A (low) or R-1 (low)	BBB (low) or R-2 (middle)
180 days	AA or R-1 (high)	A or R-1 (low)	BBB or R-2 (high)
365 days	AAA or R-1 (high)	A (high) or R-1 (middle)	BBB or R-2 (high)

"**Eligible Investment Date**" means, in respect of any investment in Eligible Investments made or to be made in accordance with the Programme Documents, any Business Day immediately after a Guarantor Payment Date.

"**Eligible Investment Liquidation Date**" means, in respect of any investment in Eligible Investments made or to be made in accordance with the Programme Documents, two Business Days before the Guarantor Calculation Date immediately following the relevant Eligible Investment Date.

"**Eligible Investments Securities Account**" means the securities account number 284175,31 opened in the name of the Guarantor with the Italian Account Bank or any other substitutive account that may be opened in accordance with the Cash Allocation, Management and Payments Agreement.

"**English Account**" means each of the Main Programme Account and the Reserve Account, and "English Accounts" means all of them.

"**English Account Bank**" means Banca Monte dei Paschi di Siena S.p.A..

"**English Account Bank Agreement**" means the English Account Bank agreement entered on 18 June 2010 between, *inter alios*, the Issuer, the Guarantor, the Italian Account Bank, the English Account Bank and the Representative of the Bondholders, as amended from time to time.

"**English Back-Up Account Bank**" means The Bank of New York Mellon S.A.\N.V., London Branch or any other entity appointed to act as such pursuant to the Cash Allocation, Management and Payments Agreement.

"**EONIA**" means the weighted average of overnight Euro Interbank Offer Rates for inter-bank loans and for Euro currency deposits.

"**EU Insolvency Regulation**" means Council Regulation (EC) No. 1346/2000 of 29 May 2000.

"**EU Directive on the Reorganisation and Winding up of Credit Institutions**" means Directive 2001/2/EC of the European Parliament and of the Council of 4 April 2001 on the reorganisation and winding up of credit institutions.

"**EURIBOR**" (1) with respect to the Covered Bonds, has the meaning ascribed to it in the relevant Final Terms; and (2) with reference to each Loan Interest Period, means the rate denominated "Euro Interbank Offered Rate" (i) at 3 (three) months (**provided that** for the First Loan Interest Period, such rate will be calculated on the basis of the linear interpolation of 3-month Euribor and 4-month Euribor), published on Reuters' page "Euribor01" on the menu "Euribor" or (A) in the different page which may substitute the Reuters' page "Euribor01" on the menu "Euribor", or (B) in the event such page or such system is not available, on the page of a different system containing the same information that can substitute Reuters' page "Euribor01" on the menu "Euribor" (or, in the event such page is available from more than one system, in the one selected by the Representative of the Bondholders) (hereinafter, the "**Screen Rate**") at 11.00 a.m. (Brussels time) of the date of determination of Interest falling immediately before the beginning of such Loan Interest Period; or (ii) in the event that on any date of determination of Interest the Screen Rate is not published, the reference rate will be the arithmetic average (rounded off to three decimals) of the rates communicated to the Guarantor

Calculation Agent, following request of such Guarantor Calculation Agent, by the Reference Banks at 11.00 a.m. (Brussels time) on the relevant date of determination of Interest and offered to other financial institutions of similar standing for a reference period similar to such Loan Interest Period; or (ii) in the event the Screen Rate is not available and only two or three Reference Banks communicate the relevant rate quotations to the Guarantor Calculation Agent, the relevant rate shall be determined, as described above, on the basis of the rate quotations provided by the Reference Banks; or (iv) in the event that the Screen Rate is not available and only one or no Reference Banks communicate such quotation to the Guarantor Calculation Agent, the relevant rate shall be the rate applicable to the immediately preceding period under sub-paragraphs (i) or (ii) above, **provided that** if the definition of Euribor is agreed differently in the context of the Asset Swap Agreement entered into by and between the Guarantor and an Asset Swap Provider in the context of the Programme, such definition will replace this definition.

"**Euro**", "**€**' and "**EUR**" refer to the single currency of member states of the EEA which adopt the single currency introduced in accordance with the Treaty.

"**Euro Equivalent**" means, in case of an issuance of Covered Bonds denominated in currency other than the Euro, an equivalent amount expressed in Euro calculated at the prevailing exchange rate.

"**Euroclear**" means Euroclear Bank S.A./N.V., with offices at 1 boulevard du Roi Albert II, B-1210 Brussels.

"**European Economic Area**" means the region comprised of member states of the EEA which adopt the Euro currency in accordance with the Treaty.

"**Excess Assets**" means, collectively, any Eligible Asset and Top-Up Asset forming part of the Cover Pool which are in excess for the purpose of satisfying the Tests.

"**Excess Term Loan Amount**" means any amount equal to the Accrued Interest collected by the Guarantor, as specified in the relevant Servicer's Reports.

"**Execution Date**" means (i) with respect to the assignment of the Initial Portfolio, the date falling on the date on which the Principal Seller receives from the Guarantor the letter of acceptance of the Master Assets Purchase Agreement, Master Servicing Agreement, Warranty and Indemnity Agreement and Subordinated Loan Agreement, and (ii) with respect to the assignment of each New Portfolio, the date on which each of the Principal Seller or Additional Seller (if any) receives from the Guarantor the letter of acceptance of the relevant Transfer Proposal.

"**Expenses**" means any documented fees, costs, expenses and taxes required to be paid to any third party creditors (other than the Bondholders and the Other Guarantor Creditors) arising in connection with the Programme, and required to be paid in order to preserve the existence of the Guarantor or to maintain it in good standing, or to comply with applicable laws and legislation.

"**Expenses Account**" means the account denominated in Euro and opened on behalf of the Guarantor with the Italian Account Bank, IBAN IT 81 J 01030 12000 000000736131, or any other substitutive account that may be opened pursuant to the Cash Allocation, Management and Payments Agreement.

"**Extended Maturity Date**" means, in relation to a specific Series or Tranche of Covered Bonds, the date falling 38 years after the relevant Maturity Date.

"**Extension Determination Date**" means, with respect to each Series or Tranche of Covered Bonds, the date falling 4 calendar days after the Maturity Date of the relevant Series.

"**Final Redemption Amount**" means, in respect of any Series or Tranche of Covered Bonds, the principal amount of such Series.

"**Final Terms**" means, in relation to any issue of any Series or Tranche of Covered Bonds, the relevant terms contained in the applicable Programme Documents and, in case of any Series or Tranche of Covered Bonds to be admitted to listing, the final terms submitted to the appropriate listing authority on or before the Issue Date of the applicable Series or Tranche of Covered Bonds.

"**Financial Laws Consolidation Act**" means Italian Legislative Decree No. 58 of 24 February 1998, as amended and supplemented from time to time.

"**First Interest Payment Date**" means the date specified in the relevant Final Terms.

"**First Issue Date**" means the Issue Date of the first Covered Bonds issued under the Programme.

"**First Loan Interest Period**" means, in relation to any Term Loan, the period starting on the relevant Drawdown Date (exclusive) and ending on the first following Guarantor Payment Date (inclusive).

"**First Series of Covered Bonds**" means the first Series of Covered Bonds issued by the Issuer in the context of the Programme.

"**First Tranche of Covered Bonds**" means if applicable the first Tranche of Covered Bonds issued by the Issuer in the context of the issuance of the First Series of Covered Bonds.

"**Fitch**" means Fitch Ratings Ltd.

"**Fixed Coupon Amount**" has the meaning given in the relevant Final Terms.

"**Fixed Interest Term Loan**" means any Term Loan granted under the Subordinated Loan Agreement in respect of which a fixed rate Corresponding Interest applies as indicated in the relevant Term Loan Proposal and corresponding to the interest payable on the corresponding Series or Tranche of Covered Bonds.

"**Floating Interest Term Loan**" means any Term Loan granted under the Subordinated Loan Agreement in respect of which a floating rate Corresponding Interest applies as indicated in the relevant Term Loan Proposal and corresponding to the interest payable on the corresponding Series or Tranche of Covered Bonds.

"**Fixed Rate Provisions**" has the meaning set out in Condition 5 (*Fixed Rate Provisions*).

"**Floating Rate Provisions**" has the meaning given in the relevant Final Terms.

"**FSMA**" means the Financial Services and Markets Act 2000, as amended from time to time.

"**Guarantee**" means the guarantee granted by the Guarantor for the purpose of guaranteeing the payments owed by the Issuer to the Bondholders and to the Other Guarantor Creditors pursuant to Law 130, Decree No. 310 and the Bank of Italy Regulations.

"**Guarantee Enforcement Notice**" means the notice to be served by the Representative of the Bondholders upon occurrence of certain Issuer Event of Default as better specified in Condition 12.2 (*Issuer Event of Default*).

"**Guarantee Priority of Payments**" means the order of priority pursuant to which the Guarantor Available Funds shall be applied on each Guarantor Payment Date, following the delivery of a Guarantee Enforcement Notice and prior to the delivery of a Guarantor Default Notice, in accordance with the Intercreditor Agreement.

"**Guaranteed Amounts**" means the Redemption Amount, the Interest Amount and any other amounts due from time to time by the Issuer to the Bondholders with respect to each Series or Tranche of Covered Bonds, including, for avoidance of doubt and without double counting, any amount that have been already paid timely by (or on behalf of) the Issuer to the Bondholders, to the extent it was clawed-back thereafter by a bankruptcy receiver, liquidator or other duly appointed officer upon opening of any bankruptcy proceedings or other similar insolvency proceedings of the Issuer.

"**Guaranteed Obligations**" means the payment obligations with respect to the Guaranteed Amounts.

"**Guarantor**" means MPS Covered Bond S.r.l. acting in its capacity as guarantor pursuant to the Guarantee.

"**Guarantor's Accounts**" means, collectively, the Italian Collection Account, the Italian Securities Collection Account, the Main Programme Account, the Expenses Account, the Eligible Investments Securities Account and any other account opened in the context of the Programme with the exception of any Collateral Account(s) as defined pursuant to clause 7.4 of the Intercreditor Agreement.

"**Guarantor Available Funds**" means, collectively, the Interest Available Funds and the Principal Available Funds.

"**Guarantor Calculation Agent**" means Securitisation Services S.p.A. or any other entity acting in such capacity pursuant to the terms of the Cover Pool Management Agreement.

"**Guarantor Calculation Date**" means the date falling on the 22nd calendar day of March, June, September and December, or, if such day is not a Business Day, the immediately succeeding Business Day.

"**Guarantor Corporate Servicer**" means Securitisation Services S.p.A. or any other entity acting in such capacity pursuant to the terms of the Corporate Services Agreement.

"**Guarantor Default Notice**" means the notice to be served by the Representative of the Bondholders in case of a Guarantor Event of Default.

"**Guarantor Event of Default**" has the meaning given to it in the Terms and Conditions of the Covered Bonds.

"**Guarantor Payment Date**" means (a) prior to the delivery of a Guarantor Default Notice, the date falling 5 Business Days after the Guarantor Calculation Date of March, June, September and December or, if such day is not a Business Day, the immediately following Business Day; and (b) following the delivery of a Guarantor Default Notice, any day on which any payment is required to be made by the Representative of the Bondholders in accordance with the Post-Enforcement Priority of Payments, the relevant Terms and Conditions and the Intercreditor Agreement.

"**Guarantor's Rights**" means the Guarantor's rights under the Programme Documents.

"**IFRS**" means international financial reporting and accounting standards issued by the International Accounting Standards Board (IASB).

"**Individual Purchase Price**" means:

(i) with respect to each Receivable transferred pursuant to the Master Assets Purchase Agreements, the most recent book value (*ultimo valore di iscrizione in bilancio*) of the relevant Receivable:

(A) *minus* the aggregate amount of (1) the accrued interest obtained at the date of the last financial statement with reference to such Receivable and included in such book value; and (2) any collections with respect to principal received by the relevant Seller with respect to such Receivable, starting from the date of the most recent financial statement (*ultimo bilancio*) until the relevant Valuation Date (included); and

(B) increased of the aggregate amount of the Accrued Interest with respect to such Receivable obtained at the relevant Valuation Date;

(ii) such other value, pursuant to article 7-*bis*, sub-paragraph 7, of Law 130, as indicated by the Principal Seller (or each Additional Seller, if any) in the relevant Transfer Proposal (also with respect to any further Eligible Assets different from the Receivables or any Top-Up Assets).

"**Initial Portfolio**" means the first portfolio of Receivables and related Security Interests to be purchased by the Guarantor pursuant to the Master Assets Purchase Agreement.

"**Initial Portfolio Purchase Price**" means the consideration paid by the Guarantor to the Principal Seller for the transfer of the Initial Portfolio, calculated in accordance with clause 5.1 of the Master Assets Purchase Agreement.

"**Insolvency Event**" means in respect of any company, entity or corporation that:

(i) such company, entity or corporation has become subject to any applicable bankruptcy, liquidation, administration, insolvency, composition or reorganisation (including, without limitation, "*fallimento*", "*liquidazione coatta amministrativa*", "*concordato preventivo*" and "*amministrazione straordinaria*", each such expression bearing the meaning ascribed to it by the laws of the Republic of Italy, and including the seeking of liquidation, winding-up, reorganisation, dissolution, administration) or similar proceedings or the whole or any substantial part of the undertaking or assets of such company, entity or corporation are subject to a pignoramento or any procedure having a similar effect (other than in the case of the Guarantor, any portfolio of assets

purchased by the Guarantor for the purposes of further programme of issuance of Covered Bonds), unless in the opinion of the Representative of the Bondholders, (who may in this respect rely on the advice of a legal adviser selected by it), such proceedings are being disputed in good faith with a reasonable prospect of success; or

(ii) an application for the commencement of any of the proceedings under (i) above is made in respect of or by such company, entity or corporation or such proceedings are otherwise initiated against such company, entity or corporation and, in the opinion of the Representative of the Bondholders (who may in this respect rely on the advice of a legal adviser selected by it), the commencement of such proceedings are not being disputed in good faith with a reasonable prospect of success; or

(iii) such company, entity or corporation takes any action for a re-adjustment of deferment of any of its obligations or makes a general assignment or an arrangement or composition with or for the benefit of its creditors (other than, in case of the Guarantor, the creditors under the Programme Documents) or is granted by a competent court a moratorium in respect of any of its indebtedness or any guarantee of any indebtedness given by it or applies for suspension of payments (other than, in respect of the Issuer, the issuance of a resolution pursuant to article 74 of the Consolidated Banking Act); or

(iv) an order is made or an effective resolution is passed for the winding-up, liquidation or dissolution in any form of such company, entity or corporation or any of the events under article 2484 of the Civil Code occurs with respect to such company, entity or corporation (except in any such case a winding-up or other proceeding for the purposes of or pursuant to a solvent amalgamation or reconstruction, the terms of which have been previously approved in writing by the Representative of the Bondholders); or

(v) such company, entity or corporation becomes subject to any proceedings equivalent or analogous to those above under the law of any jurisdiction in which such company or corporation is deemed to carry on business.

(vi) such company, entity or corporation becomes subject to any proceedings resulting from the implementation of directive 2014/59/UE 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 (the "**Bank Recovery and Resolution Directive**"),

"**Instalment**" means with respect to each Mortgage Loan Agreement, each instalment due from the relevant Debtor thereunder and which consists of an Interest Instalment and a Principal Instalment.

"**Instalment Amount**" has the meaning set out in Condition 9(h) (*Redemption and Purchase - Redemption by instalments)*.

"**Insurance Policies**" means (i) each insurance policy taken out with the insurance companies in relation to each Real Estate Asset and each Mortgage Loan or (ii) any possible "umbrella" insurance policy in relation to the Real Estate Assets which have lost their previous relevant insurance coverage.

"**Intercreditor Agreement**" means the intercreditor agreement entered on 18 June 2010 between, *inter alios*, the Guarantor and the Other Guarantor Creditors, as amended from time to time.

"**Interest Amount**" means, in relation to any Series or Tranche of Covered Bonds and an Interest Period, the amount of interest payable in respect of that Series or Tranche for that Interest Period.

"**Interest Available Funds**" means in respect of any Guarantor Payment Date, the aggregate of:

(i) any interest amounts collected by the Servicer in respect of the Cover Pool and credited into the Main Programme Account during the immediately preceding Collection Period;

(ii) all recoveries in the nature of interest received by the Servicer and credited to the Main Programme Account during the immediately preceding Collection Period;

(iii) all amounts of interest accrued (net of any withholding or expenses, if due) and paid on the Programme Accounts during the immediately preceding Collection Period;

(iv) any amounts standing to the credit of the Reserve Account in excess of the Required Reserve Amount, and following the service of a Guarantee Enforcement Notice, on the Guarantor, any amounts standing to the credit of the Reserve Account;

(v) any interest amounts standing to the credit of the Programme Accounts;

(vi) all interest amounts received from the Eligible Investments;

(vii) subject to item (ix) below, any amounts received under the Asset Swap Agreement and the Covered Bond Swap Agreement,

provided that, prior to the occurrence of a Guarantor Event of Default, any such amounts received on or after such Guarantor Payment Date (included) but prior to the next following Guarantor Payment Date (excluded) will be applied, together with any provision for such payments made on any preceding Guarantor Calculation Date, (i) to make payments in respect of interest due and payable, *pro rata* and *pari passu* in respect of each relevant Covered Bond Swap Agreement or, as the case may be, (ii) to make payments in respect of interest due on the Covered Bonds under the Guarantee, *pari passu* and *pro rata* in respect of each relevant Series or Tranche of Covered Bonds, or (iii) to make provision for the payment of such relevant proportion of such amounts to be paid on any other day up to the immediately following Guarantor Payment Date, as the Guarantor Calculation Agent may reasonably determine, or otherwise;

(viii) subject to item (ix) below, any amounts received under the Covered Bond Swap Agreements other than any Swap Collateral Excluded Amounts;

(ix) any swap termination payments received from a Swap Provider under any Swap Agreement;

provided that, prior to the occurrence of a Guarantor Event of Default, such amounts will be, to the extent permitted by the relevant Swap Agreement, net of any cost

necessary to replace the swap provider and find an eligible swap counterparty to enter into a replacement swap agreement;

(x) all interest amounts received from the Principal Seller (or any Additional Seller, if any) by the Guarantor pursuant to the Master Assets Purchase Agreement during the immediately preceding Collection Period;

(xi) any amounts paid as Interest Shortfall Amount out of item (First) of the Pre-Issuer Default Principal Priority of Payments; and

(xii) any amounts (other than the amounts already allocated under other items of the Guarantor Available Funds) received by the Guarantor from any party to the Programme Documents during the immediately preceding Collection Period.

"**Interest Commencement Date**" means the Issue Date of the relevant Series or Tranche of Covered Bonds or such other date as may be specified as the Interest Commencement Date in the relevant Final Terms.

"**Interest Coverage Test**" has the meaning as indicated pursuant to clause 2.4 of the Cover Pool Management Agreement.

"**Interest Determination Date**" has the meaning given in the relevant Final Terms.

"**Interest Instalment**" means the interest component of each Instalment.

"**Interest Payment Date**" means the First Interest Payment Date and any date or dates specified as such in, or determined in accordance with the provisions of, the relevant Final Terms and, if a Business Day Convention is specified in the relevant Final Terms:

(i) as the same may be adjusted in accordance with the relevant Business Day Convention; or

(ii) if the Business Day Convention is the FRN Convention, Floating Rate Convention or Eurodollar Convention and an interval of a number of calendar months is specified in the relevant Final Terms as being the Specified Period, each of such dates as may occur in accordance with the FRN Convention, Floating Rate Convention or Eurodollar Convention at such Specified Period of calendar months following the Interest Commencement Date (in the case of the first Interest Payment Date) or the previous Interest Payment Date (in any other case).

"**Interest Period**" means each period beginning on (and including) the Interest Commencement Date or any Interest Payment Date and ending on (but excluding) the next Interest Payment Date.

"**Interest Shortfall Amount**" means, on any Guarantor Payment Date, an amount equal to the difference, if positive, between (a) the aggregate amounts payable (but for the operation of clause 13 (*Enforcement of Security, Non Petition and Limited Recourse*) of the Intercreditor Agreement) under items *First* to *Fifth* of the Pre-Issuer Default Interest Priority of Payments; and (b) the Interest Available Funds (net of such Interest Shortfall Amount) on such Guarantor Payment Date.

"**ISDA Definitions**" has the meaning given in the relevant Final Terms.

"**ISDA Determination**" has the meaning given in the relevant Final Terms.

"**Issue Date**" means each date on which a Series or Tranche of Covered Bonds is issued.

"**Issuer**" means BMPS.

"**Issuer Event of Default**" has the meaning given to it in the Terms and Conditions of the Covered Bonds.

"**Issuer Default Notice**" means the notice to be served by the Representative of the Bondholders to upon occurrence of certain Issuer Event of Default as better specified in Condition 12.2 (*Issuer Event of Default*).

"**Istruzioni di Vigilanza**" means the regulations for banks issued by the Bank of Italy on 21 April 1999 with Circular No. 229, as subsequently amended and supplemented.

"***Istruzioni di Vigilanza per gli Intermediari Finanziari***" means the regulations for financial intermediaries issued by the Bank of Italy on 5 August 1996 with circular number 216, as subsequently amended and supplemented.

"**Italian Account Bank**" means BMPS in its capacity as Italian account bank pursuant to the Cash Allocation, Management and Payments Agreement.

"**Italian Account Bank Report**" means the report produced by the Italian Account Bank pursuant to the Cash Allocation, Management and Payments Agreement.

"**Italian Account**" means each of the Italian Collection Account, the Italian Securities Collection Account, the Payments Account, the Expenses Account and the Eligible Investments Securities Account, and "**Italian Accounts**" means all of them.

"**Italian Back-Up Account Bank**" means The Bank of New York Mellon (Luxembourg) S.A., Italian Branch or any other entity appointed to act as such pursuant to the Cash Allocation, Management and Payments Agreement.

"**Italian Collection Account**" means any of the account denominated in Euro opened in the name of the Guarantor and held by the Italian Account Bank for the deposit of any amount of the Collections of the Portfolios number 000008417530 (IBAN: IT 27 S 01030 14200 000008417530) and any other account which may be opened by the Guarantor if a bank part of the Montepaschi Group will accede the Programme in its capacity as Additional Seller and Additional Servicer, for the deposit of the collections of the Portfolios transferred by such bank, in its capacity as Additional Seller, to the Guarantor, or any other substitutive account which may be opened by the Guarantor pursuant to the Cash Allocation, Management and Payments Agreement.

"**Italian Securities Collection Account**" means any of the securities account opened in the name of the Guarantor and held by the Italian Account Bank for the deposit of the Asset Backed Securities number 184175,79 and any other account which may be opened by the Guarantor if a bank part of the Montepaschi Group will accede the Programme in its capacity as Additional Seller and Additional Servicer, for the deposit of the Asset Backed Securities transferred by such bank, in its capacity as Additional Seller, to the Guarantor, or any other substitutive account which may be opened by the Guarantor pursuant to the Cash Allocation, Management and Payments Agreement.

"**Joint-Arrangers**" means, collectively, Morgan Stanley & Co. International plc, BMPS and NatWest Markets Plc.

"**Latest Valuation**" means, at any time with respect to any Real Estate Asset, the value given to the relevant Real Estate Asset by the most recent valuation (to be performed in accordance with the requirements provided for under the Prudential Regulations) addressed to the Seller(s) or obtained from an independently maintained valuation model, acceptable to reasonable and prudent institutional mortgage lenders in Italy.

"**Joint Regulation**" means the joint regulation of CONSOB and the Bank of Italy dated 13 August 2018 and published in the Official Gazette No. 201 of 30 August 2018, as subsequently amended and supplemented from time to time.

"**Law 130**" means Italian Law No. 130 of 30 April 1999 as the same may be amended, modified or supplemented from time to time.

"**Liabilities**" means in respect of any person, any losses, damages, costs, charges, awards, claims, demands, expenses, judgements, actions, proceedings or other liabilities whatsoever including legal fees and any taxes and penalties incurred by that person, together with any value added or similar tax charged or chargeable in respect of any sum referred to in this definition.

"**Loan Interest**" means any of the Base Interest or the Corresponding Interest, as calculated in the Subordinated Loan Agreement.

"**Loan Interest Period**" means, in relation to any Term Loan: (i) the relevant First Loan Interest Period; and thereafter (ii) each period starting on a Guarantor Payment Date (excluded) and ending on the following Guarantor Payment Date (included).

"**Main Programme Account**" means the account denominated in Euro opened in the name of the Guarantor and held by the English Account Bank, number 50456002 (IBAN GB58 PASC 4051 6850 4560 02), or any other substitutive account which may be opened by the Guarantor pursuant to the Cash Allocation, Management and Payments Agreement.

"**Mandate Agreement**" means the mandate agreement entered on 18 June 2010 between the Guarantor and the Representative of the Bondholders.

"**Mandatory Tests**" means the tests provided for under article 3 of Decree No. 310 as calculated pursuant to the Cover Pool Management Agreement.

"**Margin**" has the meaning set out to the term "Margine" in the Subordinated Loan Agreement.

"**Master Assets Purchase Agreement**" means the master assets purchase agreement entered on 25 May 2010 between the Guarantor, the Principal Seller and, following accession to the Programme, each Additional Seller, as amended from time to time.

"**Master Definitions Agreement**" means the master definitions agreement entered into on or about 18 June 2010 between the parties of the Programme Documents, as amended from time to time.

"**Master Servicing Agreement**" means the master servicing agreement entered on 25 May 2010 between the Guarantor, the Principal Servicer and, following accession to the Programme, each Additional Servicer, as amended from time to time.

"**Maturity Date**" means each date on which final redemption payments for a Series or Tranche of Covered Bonds become due in accordance with the Final Terms but subject to it being extended to the Extended Maturity Date.

"**Maximum Rate of Interest**" means has the meaning given in the relevant Final Terms.

"**Maximum Redemption Amount**" means has the meaning given in the relevant Final Terms.

"**Meetings**" has the meaning ascribed to such term in the Rules of the Organisation of the Bondholders.

"**Merger**" means the merger by way of incorporation of BAV in BMPS with effect as of 28 April 2013 for civil code purposes and as of 1 January 2013 for accounting and tax purposes. Following the Merger, BMPS assumed all rights and obligations of BAV in its capacity as Additional Seller; Additional Servicer and Additional Subordinated Lender under the Programme and any reference to BAV in the Programme Documents shall be deemed to be referred to BMPS, which takes over any and all activities and roles previously carried out by BAV.

"**Minimum DBRS Rating**":

Highest Rating Assigned to Rated Securities	Minimum Instruction Rating
AAA (sf)	"A"
AA (high) (sf)	"A"
AA (sf)	"A"
AA (low) (sf)	"A"
A (high) (sf)	BBB (high)
A (sf)	BBB
A (low) (sf)	BBB (low)
BBB (high) (sf)	BBB (low)
BBB (sf)	BBB (low)
BBB (low) (sf)	BBB (low)

"**Minimum Rate of Interest**" has the meaning given in the relevant Final Terms.

"**Minimum Redemption Amount**" has the meaning given in the relevant Final Terms.

"**Montepaschi Group**" or "**Group**" means, together, the banks and other companies belonging from time to time to the banking group "Gruppo Montepaschi", enrolled with the register of banking groups held by the Bank of Italy pursuant to article 64 of the Consolidated Banking Act.

"**Monte Titoli**" means Monte Titoli S.p.A..

"**Monte Titoli Account Holders**" means any authorised financial intermediary institution entitled to hold accounts on behalf of its customers with Monte Titoli (as intermediari aderenti)

in accordance with article 30 of Decree No. 213 and includes any depositary banks approved by Clearstream and Euroclear.

"**Monthly Collection Period**" means (a) each period commencing on (and including) a Collection Date and ending on (but excluding) the following Collection Date; and (b) in the case of the first Monthly Collection Period, the period commencing on (and including) the Valuation Date and ending on (and including) the last calendar day of the month immediately preceding the first Guarantor Payment Date.

"**Monthly Servicer's Report**" means, with reference to the Principal Servicer the monthly report prepared by the Principal Servicer and with reference to any Additional Servicer, the monthly report prepared by any Additional Servicer pursuant to the Master Servicing Agreement.

"**Monthly Servicer's Report Date**" means (i) prior to the delivery of a Guarantor Default Notice, the date falling on the 15th calendar day of each month or, if such day is not a Business Day, the immediately preceding Business Day and (b) following the delivery of a Guarantor Default Notice, such date as may be indicated by the Representative of the Bondholders.

"**Moody's**" means Moody's Investors Service Limited.

"**Mortgage**" means the mortgage security interests (*ipoteche*) created on the Real Estate Assets pursuant to Italian law in order to secure claims in respect of the Receivables.

"**Mortgage Loan**" means a Residential Mortgage Loan, the claims in respect of which have been and/or will be transferred by the Seller to the Guarantor pursuant to the Master Assets Purchase Agreement.

"**Mortgage Loan Agreement**" means any residential mortgage loan agreement out of which the Receivables arise.

"**Mortgagor**" means any person, either a borrower or a third party, who has granted a Mortgage in favour of the relevant Seller to secure the payment or repayment of any amounts payable in respect of a Mortgage Loan, and/or his/her successor in interest.

"**Negative Carry Factor**" is a percentage calculated by reference to the weighted average margin of the Covered Bonds and will, in any event, be not less than 0.5 per cent.

"**Net Present Value Test**" has the meaning as indicated pursuant to clause 2.3 of the Cover Pool Management Agreement.

"**New Portfolio**" means any portfolio of Assets (other than the Initial Portfolio) which may be purchased by the Guarantor pursuant to the terms and subject to the conditions of the Master Assets Purchase Agreement.

"**New Portfolio Purchase Price**" means the consideration which the Guarantor shall pay to the relevant Seller for the transfer of each New Portfolio in accordance with the Master Assets Purchase Agreement and equal to the aggregate amount of the Individual Purchase Price of all the relevant Assets included in the relevant New Portfolio.

"**Nominal Value Test**" has the meaning as indicated pursuant to clause 2.2 of the Cover Pool Management Agreement.

"**Non-Performing Asset**" means, collectively, the Defaulted Receivables, the Delinquent Receivables and any Defaulted Asset Backed Securities.

"**Notice**" means any notice delivered under or in connection with any Programme Document.

"**Obligations**" means all the obligations of the Guarantor created by or arising under the Programme Documents.

"**Order**" means a final, judicial or arbitration decision, ruling or award from a court of competent jurisdiction that is not subject to possible appeal or reversal.

"**Optional Redemption Amount (Call)**" has the meaning given in the relevant Final Terms.

"**Optional Redemption Amount (Put)**" has the meaning given in the relevant Final Terms.

"**Optional Redemption Date (Call)**" has the meaning given in the relevant Final Terms.

"**Optional Redemption Date (Put)**" has the meaning given in the relevant Final Terms.

"**Organisation of the Bondholders**" means the association of the Bondholders, organised pursuant to the Rules of the Organisation of the Bondholders.

"**Other Guarantor Creditors**" means the Principal Seller and each Additional Seller, if any, the Principal Servicer and each Additional Servicer, if any, the Back-up Servicer, the Principal Subordinated Lender and each Additional Subordinated Lender, if any, the Guarantor Calculation Agent, the Pre-Issuer Default Test Calculation Agent, the Post-Issuer Default Test Calculation Agent, the Representative of the Bondholders, the Asset Monitor, the Asset Swap Provider, the Covered Bond Swap Providers, the Italian Account Bank, the Back-Up Account Bank, the English Account Bank, the Principal Paying Agent, the Paying Agent(s), the Luxembourg Listing and Paying Agent, the Guarantor Corporate Servicer and the Portfolio Manager (if any).

"**Outstanding Principal Balance**" means any Principal Balance outstanding in respect of any asset included in the Cover Pool.

"**Pass Through Series**" means:

(a) any Series of Covered Bonds in respect of which:

    (i) the Issuer has failed to repay in whole or in part the relevant Final Redemption Amount on the applicable Maturity Date and a Guarantee Enforcement Notice has been served on the Guarantor; and

    (ii) the Guarantor has insufficient moneys available under the relevant Priority of Payments to pay the Guaranteed Amounts corresponding to the Final Redemption Amount in respect of such Series of Covered Bonds on the relevant Extension Determination Date;

(b) all Series of Covered Bonds if a Guarantee Enforcement Notice has been delivered (and, in case of a Guarantee Enforcement Notice delivered as result of an Article 74 Event, prior to the delivery of an Article 74 Event Cure Notice) and a breach of the Amortisation Test has occurred.

"**Paying Agent**" means the Principal Paying Agent and each other paying agent appointed from time to time under the terms of the Cash Allocation, Management and Payments Agreement.

"**Payment Business Day**" means a day on which banks in the relevant Place of Payment are open for payment of amounts due in respect of debt securities and for dealings in foreign currencies and any day which is:

(i) if the currency of payment is Euro, a TARGET Settlement Day and a day on which dealings in foreign currencies may be carried on in each (if any) Additional Financial Centre; or

(ii) if the currency of payment is not Euro, a day on which dealings in foreign currencies may be carried on in the Principal Financial Centre of the currency of payment and in each (if any) Additional Financial Centre.

"**Payments Account**" means the account denominated in Euro that will be opened in the name of the Guarantor and held with the Payments Account Bank or any other substitutive account which may be opened pursuant to the Cash Allocation, Management and Payments Agreement.

"**Payments Report**" means the report to be prepared and delivered by the Guarantor Calculation Agent pursuant to the Cash Allocation, Management and Payments Agreement.

"**Performing Receivables**" means any Receivable which has not been classified as Delinquent Receivable or Defaulted Receivable.

"**Place of Payment**" means, in respect of any Bondholders, the place at which such Bondholder receives payment of interest or principal on the Covered Bonds.

"**Portfolio**" means collectively the Initial Portfolio and any other New Portfolios which has been purchased and which will be purchased by the Guarantor in accordance with the terms of the Master Assets Purchase Agreement.

"**Portfolio Manager**" means the subject appointed as portfolio manager pursuant to the Cover Pool Management Agreement or any other entity acting in such capacity pursuant to the Cover Pool Management Agreement.

"**Post-Enforcement Priority of Payments**" means the order of priority pursuant to which the Guarantor Available Funds shall be applied on each Guarantor Payment Date, following the delivery of a Guarantor Default Notice, in accordance with the Intercreditor Agreement.

"Post-Issuer Default Test Calculation Agent" means Securitisation Services S.p.A..

"**Post-Issuer Default Test Performance Report**" means, on each Test Calculation Date and Quarterly Test Calculation Date during the period after the service of a Guarantee Enforcement Notice, the relevant report prepared by the Post-Issuer Default Test Calculation Agent setting out the calculations carried out by it with respect of the relevant Tests and specifying whether any of such Tests was not met.

"Pre-Issuer Default Test Calculation Agent" means BMPS.

"**Pre-Issuer Default Interest Priority of Payments**" means the order of priority pursuant to which the Interest Available Funds shall be applied on each Guarantor Payment Date, prior to

the delivery of a Guarantee Enforcement Notice, in accordance with the Intercreditor Agreement.

"**Pre-Issuer Default Principal Priority of Payments**" means the order of priority pursuant to which the Principal Available Funds shall be applied on each Guarantor Payment Date, prior to the delivery of a Guarantee Enforcement Notice, in accordance with the Intercreditor Agreement.

"**Pre-Issuer Default Test Performance Report**" means, on each Test Calculation Date and Quarterly Test Calculation Date prior to the service of a Guarantee Enforcement Notice, the relevant report prepared by the Post-Issuer Default Test Calculation Agent setting out the calculations carried out by it with respect of the relevant Tests and specifying whether any of such Tests was not met.

"**Premium**" means, on each Guarantor Payment Date, an amount payable by the Guarantor on each Programme Term Loan in accordance with the relevant Priority of Payments and equal to the Guarantor Available Funds as at such date, after all amounts payable in priority thereto have been made in accordance with the relevant Priority of Payments.

"**Principal Amount Outstanding**" means, on any day: (a) in relation to a Covered Bond, the principal amount of that Covered Bond upon issue less the aggregate amount of any principal payments in respect of that Covered Bond which have become due and payable (and been paid) on or prior to that day; and (b) in relation to the Covered Bonds outstanding at any time, the aggregate of the amount in (a) in respect of all Covered Bonds outstanding.

"**Principal Available Funds**" means in respect of any Guarantor Payment Date, the aggregate of:

(i) all principal amounts collected by the Servicer in respect of the Cover Pool and credited to the Main Programme Account of the Guarantor during the immediately preceding Collection Period;

(ii) all other recoveries in respect of principal received by the Principal Servicer (and any Additional Seller, if any) and credited to the Main Programme Account of the Guarantor during the immediately preceding Collection Period;

(iii) all principal amounts received by the Guarantor from the Seller pursuant to the Master Assets Purchase Agreement during the immediately preceding Collection Period;

(iv) the proceeds of any disposal of Assets and any disinvestment of Assets or Eligible Investments;

(v) any amounts granted by the Seller under the Subordinated Loan Agreement and not used to fund the payment of the Purchase Price for any Eligible Assets and/or Top-Up Asset;

(vi) all amounts in respect of principal (if any) received under any Swap Agreements other than any Swap Collateral Excluded Amounts;

(vii) any amounts paid out of item *Ninth* of the Pre-Issuer Default Interest Priority of Payments; and

(viii) any principal amounts standing to the credit of the Programme Accounts.

"**Principal Balance**" means

(i) for any Mortgage Loan as at any given date, the aggregate of: (a) the original principal amount advanced to the relevant Debtor and any further amount advanced on or before the given date to the relevant Debtor secured or intended to be secured by the related Security Interest; and (b) any interest, disbursement, legal expense, fee, charge, rent, service charge, premium or payment which has been properly capitalised in accordance with the relevant Mortgage Loan or with the relevant Debtor's consent and added to the amounts secured or intended to be secured by that Mortgage Loan; and (c) any other amount (including, for the avoidance of doubt, Accrued Interest and interest in arrears) which is due or accrued (whether or not due) and which has not been paid by the relevant Debtor and has not been capitalised, as at the end of the Business Day immediately preceding that given date less any repayment or payment of any of the foregoing made on or before the end of the Business Day immediately preceding that given date;

(ii) for any Asset Backed Security as at any given date, the principal amount outstanding of that Asset Backed Security (plus any accrued but unpaid interest thereon).

"**Principal Instalment**" means the principal component of each Instalment.

"**Principal Financial Centre**" means, in relation to any currency, the principal financial centre for that currency *provided, however,* that in relation to Euro, it means the principal financial centre of such Member State of the European Communities as is selected (in the case of a payment) by the payee.

"**Principal Paying Agent**" means The Bank of New York Mellon (Luxembourg) S.A., Italian Branch in its capacity as Paying Agent pursuant to the Cash Allocation, Management and Payments Agreement or any other entity acting in such capacity pursuant to the Cash Allocation, Management and Payments Agreement.

"**Principal Seller**" means BMPS.

"Principal Servicer" means BMPS.

"**Principal Subordinated Lender**" means BMPS in its capacity as Subordinated Lender pursuant to the relevant Subordinated Loan Agreement.

"**Priority of Payments**" means each of the orders in which the Guarantor Available Funds shall be applied on each Guarantor Payment Date in accordance with the Intercreditor Agreement.

"**Privacy Law**" means Italia Law number 675 of 1996, as subsequently amended and supplemented.

"**Programme**" means the programme for the issuance of each series of Covered Bonds (*Obbligazioni Bancarie Garantite*) by the Issuer in accordance with article 7-*bis* of Law 130.

"**Programme Accounts**" means, collectively, the Italian Accounts and the English Accounts and any other account opened from time to time in connection with the Programme.

"**Programme Agreement**" means the programme agreement entered on 18 June 2010 between, *inter alios*, the Guarantor, the Principal Seller, the Issuer, the Representative of the Bondholders and the Dealers, as amended from time to time.

"**Programme Documents**" means the Master Assets Purchase Agreement, the Master Servicing Agreement, the Warranty and Indemnity Agreement, the Cash Allocation, Management and Payments Agreement, the Cover Pool Management Agreement, the Programme Agreement, the Intercreditor Agreement, each Subordinated Loan Agreement, the Asset Monitor Agreement, the Guarantee, the Corporate Services Agreement, the Swap Agreements, the Mandate Agreement, the English Account Bank Agreement, the Quotaholders' Agreement, the Prospectus, the Terms and Conditions, the Deed of Pledge, the Master Definitions Agreement, any Final Term agreed in the context of the issuance of each Series or Tranche of Covered Bonds and any other agreement entered into in connection with the Programme.

"**Programme Limit**" means €20,000,000,000.

"**Programme Term Loan**" means any Term Loan granted under the Subordinated Loan Agreement in respect of which the Base Interest applies pursuant to terms of the relevant Subordinated Loan Agreement.

"**Prospectus**" means the base prospectus prepared in the context of the issuance of the Covered Bonds.

"**Prospectus Directive**" means Directive 2003/71/EC of 4 November 2003, as subsequently amended and supplemented.

"**Prudential Regulations**" means the prudential regulations for banks issued by the Bank of Italy on 27 December 2006 with Circular No. 263, as subsequently amended and supplemented.

"**Public Entity Receivables**" means, pursuant to article 2, sub-paragraph 1, of Decree No. 310, any receivables owned by or receivables which have been benefit of a guarantee eligible for credit risk mitigation granted by public entities.

"**Public Entity Securities**" means pursuant to article 2, sub-paragraph 1, of Decree No. 310, any securities issued by or which have benefit of a guarantee eligible for credit risk mitigation granted by public entities.

"**Purchase Price**" means, as applicable, the consideration for the Initial Portfolio Purchase Price or the consideration for the New Portfolio Purchase Price pursuant to the Master Assets Purchase Agreement.

"**Put Option**" has the meaning given in the relevant Final Terms.

"**Put Option Notice**" means a notice in the form obtainable from the Principal Paying Agent which must be delivered to the Principal Paying Agent by any Bondholder wanting to exercise a right to redeem Covered Bonds at the option of the Bondholders.

"**Put Option Receipt**" means a receipt issued by the Principal Paying Agent to a Bondholder having deposited a Put Option Notice.

"**Quarterly Collection Period**" means (a) prior to the service of a Guarantor Default Notice, each period commencing on (and including) the Collection Dates in December, March, June and September and ending on (but excluding), respectively, the Collection Dates in March, June, September and December; (b) following the service of a Guarantor Default Notice, each period commencing on (and including) the last day of the preceding Quarterly Collection Period and ending on (but excluding) the date falling 10 calendar days prior to the next following quarterly Collection Date.

"**Quarterly Servicer's Report**" with reference to the Principal Servicer the quarterly report prepared by the Principal Servicer and with reference to any Additional Servicer, the quarterly report prepared by any Additional Servicer pursuant to the Master Servicing Agreement.

"**Quarterly Servicer's Report Date**" means (a) prior to the delivery of a Guarantor Default Notice, the Monthly Servicer's Report Date falling in March, June, September and December of each year or, if such day is not a Business Day, the immediately preceding Business Day; and (b) following the delivery of a Guarantor Default Notice, such date as may be indicated by the Representative of the Bondholders.

"**Quarterly Test Calculation Date**" means the Test Calculation Date falling in March, June, September and December, of each year or, if such day is not a Business Day, the immediately preceding Business Day.

"**Quota Capital**" means the quota capital of the Guarantor.

"**Quota Capital Account**" means the account denominated in Euro opened in the name of the Guarantor with Banca Antonveneta, Conegliano, Agenzia 1, IBAN IT 32 I 05040 61621 000001228269 for the deposit of the Quota Capital.

"**Quotaholder**" means BMPS and any other quotaholder of the Guarantor.

"**Quotaholders' Agreement**" means the Quotaholders' agreement entered on 18 June 2010 between, *inter alios*, the Guarantor and the Quotaholders.

"**Rate of Exchange**" has the meaning set out in the relevant Final Terms.

"**Rate of Interest**" means the rate or rates (expressed as a percentage per annum) of interest payable in respect of the Series or Tranche of Covered Bonds specified in the relevant Final Terms or calculated or determined in accordance with the provisions of these Conditions and/or the relevant Final Terms.

"**Rating Agencies**" means Fitch, Moody's and DBRS.

"**Real Estate Asset**s" means the real estate properties which have been mortgaged in order to secure the Receivables.

"**Receivables**" means specifically each and every right arising under the Mortgage Loans pursuant to the law and the Mortgage Loan Agreements, including but not limited to:

(i) all rights and claims in respect of the repayment of the Principal Instalments due and not paid at the Valuation Date (excluded);

(ii) all rights and claims in respect of the payment of interest (including the default interest) accruing on the Mortgage Loans, which are due from (but excluding) the Valuation Date;

(iii) the Accrued Interest;

(iv) all rights and claims in respect of each Mortgage and any Collateral Security relating to the relevant Mortgage Loan Agreement;

(v) all rights and claims under and in respect of the Insurance Policies; and

(vi) any privileges and priority rights (*diritti di prelazione*) transferable pursuant to the law, as well as any other right, claim or action (including any legal proceeding for the recovery of suffered damages, the remedy of termination (*risoluzione per inadempimento*) and the declaration of acceleration of the debt (*decadenza dal beneficio del termine*) with respect to the Debtors) and any substantial and procedural action and defence, including the remedy of termination (*risoluzione per inadempimento*) and the declaration of acceleration of the debt (*decadenza dal beneficio del termine*) with respect to the Debtors, inherent in or ancillary to the aforesaid rights and claims;

excluding any expenses for the correspondence and any expenses connected to the ancillary services requested by the relevant Debtor.

"**Recoveries**" means any amounts received or recovered by the Servicer in relation to any Defaulted Receivables and any Delinquent Receivables.

"**Redemption Amount**" means, as appropriate, the Final Redemption Amount, the Early Redemption Amount (Tax), the Optional Redemption Amount (Call), the Optional Redemption Amount (Put), the Early Termination Amount (as any such terms are defined in the Conditions) or such other amount in the nature of a redemption amount as may be specified in, or determined in accordance with the provisions of, the relevant Final Terms.

"**Reference Banks**" (A) with respect to the Covered Bonds, has the meaning ascribed to it in the relevant Final Terms or, if none, four major banks selected by the Principal Paying Agent in the market that is most closely connected with the Reference Rate; and, (B) with respect to the Subordinated Loan Agreement, means four financial institutions of the greatest importance, acting on the interbank market of the member states of the EEA, as selected by the Principal Subordinated Lender and communicated to the Guarantor Calculation Agent.

"**Reference Price**" has the meaning given in the relevant Final Terms.

"**Reference Rate**" has the meaning ascribed to it in the relevant Final Terms.

"**Regular Period**" means:

(i) in the case of Covered Bonds where interest is scheduled to be paid only by means of regular payments, each period from and including the Interest Commencement Date to but excluding the first Interest Payment Date and each successive period from and including one Interest Payment Date to but excluding the next Interest Payment Date;

(ii) in the case of Covered Bonds where, apart from the first Interest Period, interest is scheduled to be paid only by means of regular payments, each period from and

including a Regular Date falling in any year to but excluding the next Regular Date, where "Regular Date" means the day and month (but not the year) on which any Interest Payment Date falls; and

(iii) in the case of Covered Bonds where, apart from one Interest Period other than the first Interest Period, interest is scheduled to be paid only by means of regular payments, each period from and including a Regular Date falling in any year to but excluding the next Regular Date, where "Regular Date" means the day and month (but not the year) on which any Interest Payment Date falls other than the Interest Payment Date falling at the end of the irregular Interest Period.

"**Relevant Clearing System**" means Euroclear and/or Clearstream, Luxembourg and/or any other clearing system (other than Monte Titoli) specified in the relevant Final Terms as a clearing system through which payments under the Covered Bonds may be made.

"**Relevant Financial Centre**" has the meaning given in the relevant Final Terms.

"**Relevant Screen Page**" means the page, section or other part of a particular information service (including, without limitation, Reuters) specified as the Relevant Screen Page in the relevant Final Terms, or such other page, section or other part as may replace it on that information service or such other information service, in each case, as may be nominated by the Person providing or sponsoring the information appearing there for the purpose of displaying rates or prices comparable to the Reference Rate.

"**Relevant Time**" has the meaning given in the relevant Final Terms.

"**Representative of the Bondholders**" means BNY Mellon Corporate Trustee Services Limited or any other entity acting in such capacity pursuant to the Programme Documents.

"**Required Redemption Amount**" means (i) to the extent that no Series of Covered Bonds have become Pass Through Series, the Euro Equivalent of the Principal Amount Outstanding in respect of the Earliest Maturing Covered Bonds, multiplied by (1 + Negative Carry Factor x (days to maturity of the relevant Series or Tranche of Covered Bonds/365)) and thereafter (ii) zero.

"**Required Reserve Amount**" means the aggregate of the amounts calculated by the Guarantor Calculation Agent on each Guarantor Calculation Date, in accordance with the following formula:

- **A plus B**, if BMPS is the Covered Bond Swap Provider under the relevant Covered Bond Swap Agreement, or if no Covered Bond Swap Agreement has been entered into with respect to the relevant Series of Covered Bonds; and

- **A plus C**, if BMPS is not the Covered Bond Swap Provider under the relevant Covered Bond Swap Agreement, where:

  "**A**" is the sum of all the amounts to be paid by the Guarantor on the next following Guarantor Payment Date (i) under item First of the Pre-Issuer Default Interest Priority of Payments and (ii) as compensation for the activity of any of the Principal Servicer or the Additional Servicer under the terms of the Master Servicing Agreement.

"**B**" is the aggregate amount of all interest payable with respect of each Series of Covered Bonds during the six months period following the relevant Guarantor Calculation Date; and

"**C**" the sum of the Floating Amount (as defined in the Swap Agreement related to the relevant Series of Covered Bond) due by the Guarantor during the six months period following the relevant Guarantor Calculation Date.

"**Reserve Account**" means the account denominated in Euro opened in the name of the Guarantor and held by the English Account Bank, number 50456001 (IBAN: GB85 PASC 4051 6850 4560 01) or any other substitutive account which may be opened pursuant to the English Account Bank Agreement.

"**Reserve Amount**" means the funds standing to the credit of the Reserve Account from time to time.

"**Residential Mortgage Loan**" means, pursuant to article 2, sub-paragraph 1, of Decree No. 310, a residential mortgage loan in respect of which the relevant amount outstanding added to the principal amount outstanding of any higher-ranking mortgage loans secured by the same property, does not exceed 80 per cent. of the value of the property.

"**Residential Real Estate Assets**" means the Real Estate Assets relating to Residential Mortgage Loans.

"**Retention Amount**" means an amount equal to €50,000.00.

"**Rules of the Organisation of the Bondholders**" means the rules of the organisation of the Bondholders attached as Exhibit 1 to the Terms and Conditions, as from time to time modified in accordance with the provisions therein contained and including any agreement or other document expressed to be supplemental thereto.

"**Screen Rate Determination**" has the meaning given in the relevant Final Terms.

"**Securities Ac**t" means the U.S. Securities Act of 1933, as amended.

"**Security**" means the security created pursuant to the Deed of Pledge.

"**Security Interest**" means

(i) any mortgage, charge, pledge, lien or other encumbrance securing any obligation of any person;

(ii) any arrangement under which money or claims to money, or the benefit of, a bank or other account may be applied, set off or made subject to a combination of accounts so as to effect discharge of any sum owed or payable to any person; or

(iii) any other type of preferential arrangement (including any title transfer and retention arrangement) having a similar effect.

"**Segregation Event**" has the meaning given to the definition "Segregation Event" pursuant to the Terms and Conditions.

"**Selected Assets**" means the Eligible Assets and Top-Up Assets from time to time sold by the Guarantor in accordance with the provisions of the Cover Pool Management Agreement.

"**Seller**" means the Principal Seller pursuant to the Master Assets Purchase Agreement and each Additional Seller (if any).

"**Series**" or "**Series of Covered Bonds**" means each series of Covered Bonds issued in the context of the Programme.

"**Servicer**" means any of BMPS in its capacity as Principal Servicer pursuant to the Master Servicing Agreement and any Additional Servicer pursuant to the terms and conditions provided therein.

"**Servicer's Report Date**" means any of the Monthly Servicer's Report Date or any of the Quarterly Servicer's Report Date.

"**Servicer's Reports**" means any of the Monthly Servicer's Report and the Quarterly Servicer's Report.

"**Servicer Termination Event**" means any event as indicated in clause 11.1 of the Master Servicing Agreement.

"**Specific Criteria**" means the specific criteria specified in schedule 1 to the Master Assets Purchase Agreement.

"**Specified Currency**" means the currency as may be agreed from time to time by the Issuer, the relevant Dealer(s), the Principal Paying Agent and the Representative of the Bondholders (as set out in the applicable Final Terms).

"**Specified Denomination**" has the meaning given in the relevant Final Terms.

"**Specified Office(s)**" means, in relation to any Paying Agent, the office currently specified in the Cash Management Payments and Allocation Agreement or as further specified by notice to the Issuer and the other parties to the Cash Management Payments and Allocation Agreement in the manner provided therein or in the relevant Final Terms, as the case may be.

"**Specified Period**" has the meaning set out in the relevant Final Terms.

"**Stock Exchange**" means the regulated market of the Luxembourg Stock Exchange (*Bourse de Luxembourg*).

"**Subordinated Lender**" means any of the Principal Subordinated Lender and any Additional Subordinated Lender(s), if any.

"**Subordinated Loan Agreement**" means each subordinated loan agreement entered between a Subordinated Lender and the Guarantor, as amended from time to time.

"**Subordinated Loan Availability Period**" means the period starting from the date of execution of the Subordinated Loan Agreement (or, in respect of any Additional Seller, the relevant Subordinated Loan Agreement) and ending on the date on which all the Covered Bonds issued in the context of the Programme have been cancelled or redeemed in full pursuant

to the relevant Final Terms, in which the Subordinated Lender has the right to grant to the Guarantor, on each Drawdown Date, a Term Loan.

"**Subscription Agreement**" means any subscription agreement entered on or about the Issue Date of each Series or Tranche of Covered Bonds between, *inter alios*, each Dealer and the Guarantor

"**Substitute Servicer**" means the substitute of the Servicer which will take over the servicing activities in the event of a Servicer Termination Event pursuant to clause 12 of the Master Servicing Agreement.

"**Swap Agreements**" means, collectively, the Covered Bond Swap Agreement(s), the Asset Swap Agreement and any other swap agreement which may be entered into by the Guarantor in the context of the Programme.

"**Swap Collateral Excluded Amounts**" means at any time, the amounts of Swap Collateral which may not be applied under the terms of the relevant Swap Agreement at that time in satisfaction of the relevant Swap Provider's obligations to the Guarantor or, as the case may be, the Issuer including Swap Collateral which is to be returned to the relevant Swap Provider from time to time in accordance with the terms of the Swap Agreements and ultimately upon termination of the relevant Swap Agreement.

"**Swap Providers**" means, as applicable, the Asset Swap Provider(s), the Covered Bond Swap Providers and any other entity which may act as swap counterparty to the Guarantor by entering into a Swap Agreement.

"**TARGET2**" means the Trans-European Automated Real-time Gross Settlement Express Transfer payment system which utilises a single shared platform and which was launched on 19 November 2007.

"**TARGET Settlement Day**" means any day on which the TARGET2 is open for the settlement of payments in Euro.

"**Tax**" means any present or future taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by the Republic of Italy or any political sub-division thereof or any authority thereof or therein.

"**Term Loan**" means any term loan in the form of a Programme Term Loan or Fixed Interest Term Loan or Floating Interest Term Loan, made or to be made available to the Guarantor on each Drawdown Date under the Subordinated Loan Agreement or the principal amount outstanding for the time being of that loan.

"**Term Loan Proposal**" means an "*Offerta di Finanziamento Subordinato*" as such term is defined in the relevant Subordinated Loan Agreement.

"**Terms and Conditions**" means the Terms and Conditions of the Covered Bonds.

"**Test Calculation Agent**" means any of the Pre-Issuer Default Test Calculation Agent and the Post-Issuer Default Test Calculation Agent.

"**Test Calculation Date**" means the date on which the calculation of the Tests are performed, being a date falling on or before the Test Performance Report Date, **provided that** following

the delivery of a Guarantee Enforcement Notice the first Test Calculation Date will fall 7 Business Days after the delivery of such Guarantee Enforcement Notice.

"**Test Grace Period**" means the period starting on the date on which the breach of any of the Mandatory Tests or of the Asset Coverage Test is notified by the Pre-Issuer Default Test Calculation Agent and ending on the immediately following Test Performance Report Date.

"**Test Performance Report**" means, respectively (i) the Pre-Issuer Default Test Performance Report to be issued by the Pre-Issuer Default Test Calculation Agent and (ii) the Post-Issuer Default Test Performance Report to be issued by the Post-Issuer Default Test Calculation Agent, each setting out the calculations carried out by it with respect to the relevant Tests.

"**Test Performance Report Date**" means the date falling the 22nd calendar day of each month.

"**Test Remedy Period**" means the period starting from the date on which a Breach of Test Notice is delivered and ending on the Test Performance Report Date falling 5 months thereafter.

"**Tests**" means, as appropriate, the Mandatory Tests, the Asset Coverage Test, the Amortisation Test.

"**Top-Up Assets**" means, in accordance with article 2, sub-paragraph 3.2 and 3.3 of Decree No. 310, each of the following assets:

(i) deposits held with banks which have their registered office in the European Economic Area or Switzerland or in a country for which a 0 per cent. risk weight is applicable in accordance with the Bank of Italy's Prudential Regulations for banks - standardised approach; and

(ii) securities issued by the banks indicated in item (i) above, which have a residual maturity not exceeding one year.

"**Total Commitment**" means, in respect of each Subordinated Lender, the commitment specified in the relevant Subordinated Loan Agreement.

"**Tranche**" or "**Tranches of Covered Bonds**" means each tranche of Covered Bonds which may be comprised in a Series of Covered Bonds.

"**Transfer Proposal**" means, in respect to each New Portfolio, the transfer proposal which will be sent by the relevant Seller and addressed to the Guarantor substantially in the form set out in schedule 7 to the Master Assets Purchase Agreement.

"**Treaty**" means the treaty establishing the European Community.

"**Usury Law**" means Italian Law number 108 of 7 March 1996, together with Decree number 349 of 29 December 2000 as converted into Law number 24 of 28 February 2001.

"**Valuation Date**" means, with respect to the Initial Portfolio, the 21 of May 2010 and with respect to any New Portfolios, the date that will be established jointly by the Principal Seller or any Additional Seller and the Guarantor.

"**Warranty and Indemnity Agreement**" means the warranty and indemnity agreement entered on 25 May 2010 between the Principal Seller and the Guarantor.

"**Zero Coupon Provisions**" has the meaning set out in Condition 8 (*Zero Coupon Provisions*).

ISSUER

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